Partners HealthCare System, Inc. and Affiliates

Consolidated Financial Statements
(with consolidating financial information)
September 30, 2010 and 2009

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Report of Independent Auditors

To the Board of Directors of
Partners HealthCare System, Inc. and Affiliates

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Partners HealthCare System, Inc. and its Affiliates at September 30, 2010 and 2009, and the results of their operations, their changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Partners HealthCare System, Inc. and Affiliates' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

December 10, 2010

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Partners HealthCare System, Inc. and Affiliates
Consolidated Balance Sheets
September 30, 2010 and 2009

(dollars in thousands)	**2010**	**2009**
Assets		
Current assets		
Cash and equivalents	$ 626,919	$ 561,232
Investments	1,050,749	1,046,894
Collateral held under securities lending arrangements	129,183	183,336
Current portion of investments limited as to use	1,084,877	898,056
Patient accounts receivable, net of allowance for bad debts 2010 - $114,425; 2009 - $108,177	698,380	712,238
Research grants receivable	132,512	133,190
Other current assets	252,620	261,554
Receivable for settlements with third-party payers	39,472	33,330
Total current assets	4,014,712	3,829,830
Investments limited as to use, less current portion	2,106,023	1,857,459
Long-term investments	838,913	829,816
Pledges receivable, net and contributions receivable from trusts, less current portion	162,839	152,956
Property and equipment, net	3,749,234	3,354,069
Other assets	118,614	99,715
Total assets	$ 10,990,335	$ 10,123,845
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	$ 489,913	$ 820,620
Accounts payable and accrued expenses	596,916	581,831
Accrued compensation and benefits	532,410	477,325
Collateral due under securities lending arrangements	129,183	183,336
Current portion of accrual for settlements with third-party payers	34,144	22,516
Unexpended funds on research grants	152,513	165,490
Total current liabilities	1,935,079	2,251,118
Other liabilities		
Accrual for settlements with third-party payers, less current portion	15,453	45,093
Accrued professional liability	70,260	64,412
Accrued employee benefits	977,836	979,288
Interest rate swaps liability	271,402	184,032
Accrued other	216,764	201,262
	1,551,715	1,474,087
Long-term obligations, less current portion	1,977,033	1,424,027
Total liabilities	5,463,827	5,149,232
Commitments and contingencies		
Net assets		
Unrestricted	4,391,191	3,845,791
Temporarily restricted	824,426	829,928
Permanently restricted	310,891	298,894
Total net assets	5,526,508	4,974,613
Total liabilities and net assets	$ 10,990,335	$ 10,123,845

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

Partners HealthCare System, Inc. and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2010 and 2009

(dollars in thousands)	2010	2009
Operating revenue		
Net patient service revenue	$ 6,182,451	$ 5,823,741
Direct academic and research revenue	1,045,789	967,635
Indirect academic and research revenue	324,583	286,846
Other revenue	572,488	536,638
Total operating revenue	8,125,311	7,614,860
Operating expenses		
Employee compensation and benefits	4,427,300	4,129,020
Supplies and other expenses	1,905,160	1,827,557
Direct academic and research expenses	1,045,789	967,635
Depreciation and amortization	356,844	328,486
Provision for bad debts	119,861	121,051
Interest	75,677	76,662
Total operating expenses	7,930,631	7,450,411
Income from operations	194,680	164,449
Nonoperating gains (expenses)		
Income (loss) from investments	109,941	(25,278)
Change in fair value of nonhedging interest rate swaps	(40,690)	(38,955)
Gifts and other, net of expenses	(37,985)	(36,229)
Academic and research gifts, net of expenses	42,539	(18,362)
Total nonoperating gains (expenses), net	73,805	(118,824)
Excess of revenues over expenses	268,485	45,625
Other changes in net assets		
Change in net unrealized appreciation on marketable investments	58,545	93,032
Change in fair value of hedging interest rate swaps	(45,820)	(46,026)
Funds utilized for property and equipment	75,420	39,855
Net assets acquired through merger	193,818	-
Other	5,412	1,618
Change in funded status of defined benefit plans	(10,460)	(778,737)
Cumulative effect of change in defined benefit plans measurement date	-	(73,051)
Increase (decrease) in unrestricted net assets	$ 545,400	$ (717,684)

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

Partners HealthCare System, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2010 and 2009

(dollars in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net assets at October 1, 2008	$ 4,563,475	$ 861,910	$ 301,780	$ 5,727,165
Increases (decreases)				
Income from operations	164,449	-	-	164,449
Loss from investments	(25,278)	(49,173)	(1,080)	(75,531)
Gifts and other	(36,229)	(5,606)	8,284	(33,551)
Academic and research gifts, net of expenses	(18,362)	-	-	(18,362)
Change in net unrealized appreciation on marketable investments	93,032	23,203	(1,506)	114,729
Change in fair value of interest rate swaps				
Nonhedging	(38,955)	-	-	(38,955)
Hedging	(46,026)	-	-	(46,026)
Funds utilized for property and equipment	39,855	(5,595)	-	34,260
Other	1,618	5,189	(8,584)	(1,777)
Change in funded status of defined benefit plans	(778,737)	-	-	(778,737)
Cumulative effect of change in defined benefit plans measurement date	(73,051)	-	-	(73,051)
Change in net assets	(717,684)	(31,982)	(2,886)	(752,552)
Net assets at September 30, 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	(37,985)	23,652	14,903	570
Academic and research gifts, net of expenses	42,539	-	-	42,539
Change in net unrealized appreciation on marketable investments	58,545	6,372	364	65,281
Change in fair value of interest rate swaps				
Nonhedging	(40,690)	-	-	(40,690)
Hedging	(45,820)	-	-	(45,820)
Funds utilized for property and equipment	75,420	(38,848)	-	36,572
Net assets acquired through merger	193,818	-	-	193,818
Other	5,412	(1,478)	(3,549)	385
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

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

Partners HealthCare System, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2010 and 2009

(dollars in thousands)	**2010**	**2009**
Cash flows from operating activities		
Change in net assets	$ 551,895	$ (752,552)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net assets acquired through merger	(193,818)	-
Cumulative effect of change in defined benefit plans measurement date	-	73,051
Change in funded status of defined benefit plans	10,460	778,737
Loss on refunding of debt	3,180	-
Change in fair value of interest rate swaps	86,510	84,981
Depreciation and amortization	356,844	328,486
Provision for bad debts	119,861	121,051
Loss on disposal of property	1,425	1,152
Net realized and change in unrealized appreciation on investments	(213,105)	(44,166)
Restricted contributions and investment income	(73,471)	(66,181)
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(106,003)	(90,644)
Research grants receivable	678	20,751
Other current assets	5,297	(914)
Pledges receivable and contributions receivable from trusts	(6,240)	29,738
Other assets	(14,020)	883
Accounts payable and accrued expenses	15,038	156,819
Accrued compensation and benefits	53,972	19,854
Settlements with third-party payers	(24,154)	8,683
Unexpended funds on research grants	(12,977)	(5,522)
Accrued employee benefits and other	10,366	16,011
Net cash provided by operating activities	571,738	680,218
Cash flows from investing activities		
Purchase of property and equipment	(607,039)	(634,218)
Purchase of investments	(482,118)	(1,393,653)
Proceeds from sales of investments	303,800	1,347,866
Net cash used for investing activities	(785,357)	(680,005)
Cash flows from financing activities		
Borrowings under line of credit	-	50,000
Repayment of borrowings under line of credit	-	(50,000)
Payments on long-term obligations	(65,098)	(40,514)
Proceeds from long-term obligations, net of financing costs	504,027	227,305
Decrease (increase) in auction rate securities holdings	20,000	(50,000)
Deposits into refunding trusts	(253,094)	-
Restricted contributions and investment income	73,471	66,181
Net cash provided by financing activities	279,306	202,972
Net increase in cash and equivalents	65,687	203,185
Cash and equivalents at beginning of year	561,232	358,047
Cash and equivalents at end of year	$ 626,919	$ 561,232

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

(dollars in thousands)

1. Organization and Community Benefit Commitments

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

Partners HealthCare currently operates two tertiary and five community acute care hospitals in eastern Massachusetts, one facility providing inpatient and outpatient mental health services and four facilities providing inpatient and outpatient services in rehabilitation medicine and long term care. Partners HealthCare also operates physician organizations and practices, a home health agency, nursing homes, hospice, and a graduate level program for health professions. Partners HealthCare provides services to patients primarily from the Greater Boston area as well as New England and beyond. In addition, Partners HealthCare is a nonuniversity-based nonprofit private medical research enterprise and is a principal teaching affiliate of the medical and dental schools of Harvard University.

On September 30, 2010, the Massachusetts Biomedical Research Corporation (MBRC) merged into The General Hospital Corporation (the General). MBRC was a tax-exempt organization, created for the purposes of promoting and supporting basic and applied biomedical and other scientific research, owning and leasing real estate in order to enhance and to provide facilities for the conduct of such research and other hospital-related support functions, and promoting and supporting education in the field of medicine. MBRC purchased real estate which was subsequently leased to and occupied by the General. MBRC has been a related party but not controlled by either the General or Partners HealthCare, and therefore not previously consolidated within these financial statements. The merger has been accounted for at historical cost, similar to a pooling of interests, however, prior period financial statements have not been restated as the impact of the transaction on the consolidated financial statements is not considered to be material. The effect of the merger was to increase unrestricted net assets by $193,818 on September 30, 2010, which has been reported as a component of other changes in unrestricted net assets. Had prior period financial statements been restated, net assets at October 1, 2008 and September 30, 2009 would have increased by $148,993 and $170,134, respectively, and the excess of revenues over expenses would have increased by $23,684 and $21,141 for the years ended September 30, 2010 and September 30, 2009, respectively.

PHS is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Substantially all affiliates of PHS (except for PCHI) are also tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes related to these entities has been made. PCHI is a taxable entity, and as of September 30, 2010, has available net operating loss carryforwards of approximately $52,000 for income tax purposes, expiring in 2012 through 2024.

(dollars in thousands)

Community Benefit

Partners HealthCare's community benefit programs include working with communities to address a number of public health issues including racial disparities, alcohol and substance abuse among young people, infant mortality, domestic violence and cancer. Partners HealthCare provides economic opportunity for low income Boston residents by helping people advance into nursing and other healthcare careers through its public school partnerships and workforce development programs. In addition, twenty-one community health centers are licensed by or affiliated with Partners HealthCare entities, providing high quality, culturally competent primary care and access to its hospitals. Partners HealthCare invests in these health centers' infrastructure, programming and operation and also helps with relocation, renovation, and other capital requirements.

The Massachusetts Attorney General's Community Benefits Guidelines direct health maintenance organizations and nonprofit acute care hospitals to prepare annual reports documenting the status and level of their community benefit programs and initiatives. These annual reports serve the important purpose of providing the public with access to useful information about these programs and initiatives. Partners HealthCare files its report annually with the Attorney General. The report summarizes community benefit activities on a systemwide basis. In addition, each of the acute care hospitals within Partners HealthCare has a community benefit planning and service delivery structure and files separate community benefit reports. Partners HealthCare's nonacute care hospitals also file reports annually.

Uncompensated Care

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

State Programs

Uncompensated Care

Free care services are partially reimbursed to acute care hospitals through the statewide Health Safety Net (HSN, formerly known as the Uncompensated Care Pool) established by the Massachusetts Health Care Reform Law (Chapter 58 of the Acts of 2006). A portion of the funding for the HSN is paid by hospitals through a statewide hospital assessment levied each year by the Massachusetts Legislature. All acute care hospitals in the state are assessed their share of this total statewide hospital assessment amount ($160,000 in 2010 and $180,000 in 2009) based on each hospital's charges for private sector payers. Partners HealthCare's hospitals report this assessment as a deduction from net patient service revenue.

Hospitals are reimbursed for free care based on claims for eligible patients that are submitted to and adjudicated by the HSN. Rates of payment are based on Medicare rates and payment policies. In 2010, the HSN is projected to be under-funded by approximately $69,000. This shortfall is allocated to hospitals based on their share of total statewide patient care costs. Each hospital’s share of the overall state shortfall cannot exceed its total free care reimbursement. Hospitals with a high proportion of free care and government funding receive more favorable reimbursement, including limiting their shortfall allocation to no more than 15%. In aggregate, Partners HealthCare acute care hospitals' share of uncompensated care funding covered 49% of the estimated cost of free care provided in 2010 and 72% of the estimated cost in 2009, excluding the assessment.

(dollars in thousands)

Medicaid

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

Medicaid payments to Partners HealthCare providers do not cover the cost of services provided. In aggregate, reimbursement from Medicaid covered 65% of the estimated cost of services provided in 2010 and 70% of the estimated cost in 2009.

Federal Program

Medicare

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

Consequently, Medicare payments to Partners HealthCare providers also do not cover the cost of services provided. In aggregate, reimbursement from Medicare covered 76% of the estimated cost of services provided in 2010 and 75% of the estimated cost of services in 2009.

(dollars in thousands)

For free care, Medicaid and Medicare, the total estimated cost of services provided by Partners HealthCare providers exceeds the net reimbursement received under these programs by $814,622 and $745,784 for the years ended September 30, 2010 and 2009, respectively. The following summarizes, by program, the cost of services provided, net reimbursement and cost of services in excess of reimbursement for each year:

	Years Ended September 30, 2010	2009
Cost of services provided		
Free Care, including assessment payment to HSN of $47,671 and $54,569 in 2010 and 2009, respectively	$ 142,857	$ 145,196
Medicaid	658,153	578,516
Medicare	1,999,692	1,882,147
	$ 2,800,702	$ 2,605,859
Net reimbursement		
Free Care	$ 36,296	$ 50,622
Medicaid	427,539	402,859
Medicare	1,522,245	1,406,594
	$ 1,986,080	$ 1,860,075
Cost of services in excess of reimbursement		
Free Care	$ 106,561	$ 94,574
Medicaid	230,614	175,657
Medicare	477,447	475,553
	$ 814,622	$ 745,784

Bad Debts
In addition to free care and inadequate funding from the Medicaid and Medicare programs, there are significant losses related to self-pay patients who fail to make payment for services rendered or insured patients who fail to remit co-payments and deductibles as required under the applicable health insurance arrangement. The provision for bad debts of $119,861 in 2010 and $121,051 in 2009 represents charges for services provided that are deemed to be uncollectible. The estimated cost of providing these services was approximately $44,791 and $42,942 for 2010 and 2009, respectively.

2. Summary of Significant Accounting Policies

Basis of Accounting
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of PHS and its affiliates. Significant interaffiliate accounts and transactions have been eliminated.

(dollars in thousands)

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

Fair Value of Financial Instruments
The fair value of financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and equivalents, investments, investments limited as to use, collateral held under securities lending arrangements, patient accounts receivable, research grants receivable, accounts payable, collateral due under securities lending arrangements, and interest rate swaps. More information can be found in Note 4, Fair Value Measurements.

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

Investments
Investments in equity securities with readily determinable fair values and all investments in debt securities (marketable investments) are measured at fair value based on quoted market prices. The change in net unrealized appreciation on these marketable investments is excluded from excess of revenues over expenses.

Alternative investments, including hedge funds and private equities, do not have readily ascertainable market values. Alternative investments are valued by the investment manager and assessed for reasonableness by management using the following methodology: investments in securities sold short or traded on a national securities exchange are valued based on quoted market prices; investments in securities that are not traded and restricted securities of public companies are valued based on amounts reported by the fund manager and evaluated by management. The reported value of these investments represents the amount Partners HealthCare would have expected to receive if it had liquidated its investments at the balance sheet date on a nondistressed basis. Investments in hedge funds, private equity, private debt and other private partnerships (collectively, "private partnerships"), for which Partners HealthCare owns more than 5% of the overall investment are generally recorded as equity method investments. The change in value of equity method investments is included in excess of revenues over expenses as a component of income from investments. All other investments are recorded at cost.

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

(dollars in thousands)

Investments whose cost exceeds fair value are reviewed each quarter to determine whether these investments are other-than-temporarily impaired. 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 subject to a further review, which considers factors including the anticipated holding period for the investment and the extent and duration of below cost valuation. A similar write-down is recorded when the impairment on these investments has been judged to be other-than-temporary.

Depending on any donor-imposed restrictions on the underlying investments, the amount of the write-down is reported as a realized loss in either temporarily restricted net assets or in excess of revenues over expenses as a component of income from investments, with no adjustment in the cost basis for subsequent recoveries in fair value.

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

Investments Limited as to Use

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

Securities Loaned

Investments that have been loaned to another institution are reported as pledged assets within investments in the consolidated financial statements. Cash or investments held by the custodian on behalf of Partners HealthCare as collateral on the securities lending transaction are also reported as assets on the balance sheet. Because the collateral must be returned in the future, a corresponding liability is also reported in the consolidated financial statements.

(dollars in thousands)

Derivative Instruments
Derivatives are recognized on the balance sheet at fair value. Partners HealthCare designates at inception whether the derivative contract is considered hedging or nonhedging for accounting purposes. For hedges, Partners HealthCare formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. Partners HealthCare uses its derivatives, designated as hedging for accounting purposes, as cash flow hedges. Cash flow hedges are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions caused by changes in interest rates. Changes in the fair value of derivatives designated for hedging activities that are highly effective as hedges are excluded from excess of revenues over expenses. Hedge ineffectiveness, if any, is recorded in excess of revenues over expenses. For non-hedging derivatives, changes in the fair value are recorded in excess of revenues over expenses.

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

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

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

(dollars in thousands)

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

Other Assets
Other assets consist of long-term receivables, deferred financing costs, intangible assets, investments in healthcare related limited partnerships and benefit assets for over-funded defined benefit plans. Deferred financing costs are amortized over the terms of the related obligations.

The excess of the purchase price over the fair value of tangible assets of physician groups acquired is being amortized over periods ranging from five years to twenty years based on the estimated period of benefits from the acquisition. The carrying value of other assets is reviewed if the facts and circumstances suggest that it may be impaired.

Compensated Absences
In accordance with formal policies concerning vacation and other compensated absences, accruals of $186,921 and $176,515 were recorded as of September 30, 2010 and 2009, respectively.

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

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

Net Assets
Permanently restricted net assets include the historical dollar amounts of gifts, and income and gains, which are required by donors to be permanently retained. Temporarily restricted net assets include gifts, and income and gains on permanently restricted net assets which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period). Unrestricted net assets include all the remaining net assets of Partners HealthCare. See Note 12 for further information on the composition of restricted net assets.

(dollars in thousands)

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

Gifts and Grants

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

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

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

Statement of Operations

All activities of Partners HealthCare deemed by management to be ongoing, major and central to the provision of healthcare services, training and research activities are reported as operating revenue and expenses. Other activities are deemed to be nonoperating and include unrestricted gifts (net of fundraising expenses), net change in unexpended academic and research gifts, change in fair value of nonhedging interest rate swaps, and substantially all income (loss) from investments. Academic and research gifts largely consist of donor contributions (and the related investment income including realized gains and losses) designated to support the clinical, teaching or research efforts of a physician or department as directed by the donor. These gifts are reported as unrestricted, net of related support expenses, as any donor restrictions are of a general nature that are inherent in the normal activities of the organization and do not require classification of these gifts as temporarily or permanently restricted.

Partners HealthCare recognizes changes in third-party payer settlements and other estimates in the year of the change in estimate. For the years ended September 30, 2010 and 2009, adjustments to prior year estimates resulted in an increase to income from operations of $21,071 and $5,144, respectively.

(dollars in thousands)

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

CMS is required by its enabling statute to maintain budget neutrality by prospectively adjusting the Medicare payment rate to eliminate the effect of changes in DRG classification that do not reflect real changes in case-mix. Congress mandated that CMS recoup any overpayments made to hospitals in 2008 and 2009 resulting from increased coding and documentation. CMS has calculated the overpayments, net of rate reductions already assessed against hospitals, to be 1.9% in 2008 and an additional 2% in 2009. CMS intends to recoup these overpayments through equal rate reductions in 2011 and 2012.

Partners HealthCare has recorded the estimated overpayment amounts received as deferred revenue. Management believes this accounting treatment better reflects the financial impact of this rate methodology and more accurately presents the recognition of revenue. As of September 30, 2010, the estimated amount to be recouped is $38,509 and will be amortized equally into net patient service revenue in fiscal years 2011 and 2012.

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

Net Patient Service Revenue

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

(dollars in thousands)

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

Charity Care

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

Other Revenue

Other revenue includes institutional revenue (for example, billing for services provided to other healthcare providers), royalties and management services.

Reclassification

Certain amounts in the 2009 financial statements have been reclassified to conform with the 2010 presentation. All research funds with credit balances are reported as liabilities, as a component of unexpended funds on research grants, to more accurately reflect the nature of these balances. Previously, certain of these credit balances were reported as a component of research grants receivable. The impact of this reclassification was to increase grants receivable and unexpended funds on research grants by $20,154 as of September 30, 2009, with a corresponding reclass between cash and current portion of investments limited as to use.

(dollars in thousands)

3. Investments and Investments Limited as to Use

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

The Partnership invests in private partnerships whose assets include equity, fixed income, and other investments. As of September 30, 2010, Partners HealthCare has unfunded commitments of approximately $316,709 which will be drawn down by the various general partners over the next several years. The maximum annual drawdown is expected to be less than 2% of investments and investments limited as to use.

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

	September 30, 2010	September 30, 2009
Current assets		
Investments	$ 1,050,749	$ 1,046,894
Current portion of investments limited as to use	1,084,877	898,056
	2,135,626	1,944,950
Investments limited as to use, less current portion	2,106,023	1,857,459
Long-term investments	838,913	829,816
	$ 5,080,562	$ 4,632,225

(dollars in thousands)

Investments limited as to use consist of the following:

	September 30, 2010		September 30, 2009	
	Current Portion	**Long-Term Portion**	**Current Portion**	**Long-Term Portion**
Internally designated funds				
Reserved for capital expenditures	$ 534,900	$ -	$ 542,345	$ -
Unexpended academic and research gifts	-	1,677,428	-	1,515,184
Deferred compensation	-	139,679	-	123,236
Other	321,344	235,249	143,208	164,412
	856,244	2,052,356	685,553	1,802,832
Externally limited funds				
Unexpended funds on research	152,513	-	165,490	-
Contributions held for others	26,951	-	27,718	-
Professional liability trust fund	-	44,541	-	40,410
Held by trustees under debt and other agreements	49,169	9,126	19,295	14,217
	228,633	53,667	212,503	54,627
	$ 1,084,877	$ 2,106,023	$ 898,056	$ 1,857,459

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

	September 30, 2010			
	At Fair Value	**On Equity Method**	**On Cost Method**	**Total**
Pooled investments				
Invested cash equivalents	$ 109,653	$ -	$ -	$ 109,653
Separately managed investments	1,852,860	-	-	1,852,860
Mutual funds	296,137	-	-	296,137
Commingled funds	347,949	-	-	347,949
Private partnerships	-	631,554	1,446,045	2,077,599
	2,606,599	631,554	1,446,045	4,684,198
Separately invested				
Invested cash equivalents	137,053	-	-	137,053
Equities	26,184	-	4,965	31,149
U.S. Government and domestic fixed income securities	4,760	-	-	4,760
Mutual funds	141,377	-	-	141,377
Other	8,104	-	73,921	82,025
	317,478	-	78,886	396,364
	$ 2,924,077	$ 631,554	$ 1,524,931	$ 5,080,562

(dollars in thousands)

Separately managed investments include cash and equivalents of $124,094, equities of $529,917 and fixed income securities of $1,198,849 as of September 30, 2010.

	September 30, 2009			
	At Fair Value	On Equity Method	On Cost Method	Total
Pooled investments				
Invested cash equivalents	$ 42,690	$ -	$ -	$ 42,690
Separately managed investments	1,584,055	-	-	1,584,055
Mutual funds	401,548	-	-	401,548
Commingled funds	330,670	-	-	330,670
Private partnerships	-	542,023	1,343,485	1,885,508
	2,358,963	542,023	1,343,485	4,244,471
Separately invested				
Invested cash equivalents	171,640	-	-	171,640
Equities	24,880	-	3,527	28,407
U.S. Government and domestic fixed income securities	5,106	-	-	5,106
Mutual funds	122,695	-	-	122,695
Other	7,813	-	52,093	59,906
	332,134	-	55,620	387,754
	$ 2,691,097	$ 542,023	$ 1,399,105	$ 4,632,225

Separately managed investments include cash and equivalents of $56,874, equities of $446,291 and fixed income securities of $1,080,890 as of September 30, 2009.

For the private partnerships reflected in the balance sheet at cost, the difference (unrecorded unrealized appreciation) between the value reported by the investment managers and the cost for these investments was $439,927 and $261,914 as of September 30, 2010 and 2009, respectively.

The fair value and gross unrealized depreciation of investments and investments limited as to use, with a fair value less than cost, that are not deemed to be other-than-temporarily impaired at September 30, 2010 are as follows:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
Pooled investments				
Mutual funds	$ -	$ -	$ 261,899	$ (41,485)
Separately invested				
Equities	-	-	17,074	(2,265)
U.S. Government and domestic fixed income securities	-	-	1,548	(646)
Mutual funds	-	-	487	(12)
External trusts	-	-	7,013	(1,433)
	-	-	26,122	(4,356)
	$ -	$ -	$ 288,021	$ (45,841)

(dollars in thousands)

In addition, for certain private partnerships recorded at cost, gross unrealized depreciation amounted to $48,099 as of September 30, 2010, with $18,613 of that amount unrealized for 12 months or greater.

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

	Years Ended September 30, 2010	Years Ended September 30, 2009
Unrestricted		
Dividends, interest and other income	$ 62,498	$ 59,163
Endowment income distributions, net of reinvested gains	25,070	27,569
Net realized gains (losses) on investments		
Realized gains	77,552	25,293
Other-than-temporary impairment	(17,213)	(93,402)
Change in value of equity method investments	54,454	19,105
Recovery (losses) on endowment funds	1,629	(787)
Total investment activity included in excess of revenues over expenses	203,990	36,941
Change in net unrealized appreciation on marketable investments	58,545	93,032
Total unrestricted investment activity	262,535	129,973
Temporarily restricted		
Dividends and interest income	4,694	4,759
Endowment income distributions	(31,069)	(34,262)
Net realized gains (losses) on investments		
Realized gains (losses)	18,411	(1,167)
Other-than-temporary impairment	(2,823)	(23,444)
	(10,787)	(54,114)
Change in value of equity method investments	15,557	4,941
Change in net unrealized appreciation on marketable investments	8,000	22,416
(Recovery) losses on endowment funds	(1,629)	787
	21,928	28,144
Total temporarily restricted investment activity	11,141	(25,970)
Permanently restricted		
Dividends and interest income	21	22
Net realized gains (losses) on investments	258	(1,102)
Change in net unrealized appreciation on investments	364	(1,506)
Total permanently restricted investment activity	643	(2,586)
	$ 274,319	$ 101,417

(dollars in thousands)

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

	Years Ended September 30, 2010	Years Ended September 30, 2009
Investment income included in operations and reported in Other revenue	$ 9,157	$ 8,940
Investment income (loss) included in nonoperating gains (expenses) and reported in		
Income (loss) from investments	109,941	(25,278)
Academic and research gifts, net of expenses	84,892	53,279
Total investment activity included in excess of revenues over expenses	$ 203,990	$ 36,941

Securities Lending
The Partnership may lend securities to qualified financial institutions through a program administered by the Partnership custodian. All loans are callable at any time and are fully collateralized. Income is earned based on the collateral held and invested during the period of lending. Cash collateral requirements are 102% and 105% for domestic and foreign securities, respectively. The custodian continually monitors borrowers' creditworthiness and protects against borrower default through full indemnification. If a borrower failed to return a loaned security whose market value has increased over the amount in collateral, the custodian will cover the difference. The custodian will also cover operational losses, such as the failure of the borrower to make substitute dividend payments to the lender.

The fair value of loaned securities and related collateral at September 30, 2010 and 2009 is as follows:

	2010		2009	
	Loaned Securities	Collateral	Loaned Securities	Collateral
Equities, U.S. government, domestic and foreign fixed income securities	$ 125,172	$ 129,183	$ 178,276	$ 183,336

Income generated by the Partnership from securities lending arrangements was $237 and $1,346 for the years ended September 30, 2010 and 2009, respectively.

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

(dollars in thousands)

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

The hierarchy is described below.

Level 1 - Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment. Level 1 assets and liabilities primarily include debt and equity securities that are traded in an active exchange market.

Level 2 - Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities primarily include debt securities with quoted prices that are traded less frequently than exchange-traded instruments as well as debt securities and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 - Valuations using unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the reporting entity's assumptions about the assumptions market participants would use as well as those requiring significant management judgment.

Valuation Techniques
Pooled investments (except for private partnerships), separately invested cash equivalents, debt and equity securities, and collateral due under securities lending arrangements 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. Certain types of investments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no observable inputs with which to measure fair value.

The valuation of interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

The following tables summarize fair value measurements at September 30, 2010 and 2009 for financial assets and liabilities measured at fair value on a recurring basis:

(dollars in thousands)

	Fair Value at September 30, 2010	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Pooled investments				
Invested cash equivalents	$ 109,653	$ 12,187	$ 97,466	$ -
Separately managed investments	1,852,860	531,214	1,321,646	-
Mutual funds	296,137	296,137	-	-
Commingled funds	347,949	-	347,949	-
	2,606,599	839,538	1,767,061	-
Separately invested				
Invested cash equivalents	137,053	137,053	-	-
Equities	26,184	20,884	1,963	3,337
U.S. Government and domestic fixed income securities	4,760	3,298	1,462	-
Mutual funds	141,377	141,377	-	-
Other	8,104	120	-	7,984
	317,478	302,732	3,425	11,321
	$ 2,924,077	$ 1,142,270	$ 1,770,486	$ 11,321
Collateral held under securities lending arrangements	$ 129,183		$ 129,183	
Liabilities				
Interest rate swaps	$ 271,402		$ 271,402	

(dollars in thousands)

		Fair Value Measurements Using		
	Fair Value at September 30, 2009	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Pooled investments				
Invested cash equivalents	$ 42,690	$ 13,948	$ 28,742	$ -
Separately managed investments	1,584,055	450,863	1,133,192	-
Mutual funds	401,548	401,548	-	-
Commingled funds	330,670	-	330,670	-
	2,358,963	866,359	1,492,604	-
Separately invested				
Invested cash equivalents	171,640	171,640	-	-
Equities	24,880	17,607	2,652	4,621
U.S. Government and domestic fixed income securities	5,106	3,645	1,461	-
Mutual funds	122,695	122,695	-	-
Other	7,813	158	-	7,655
	332,134	315,745	4,113	12,276
	$ 2,691,097	$ 1,182,104	$ 1,496,717	$ 12,276
Collateral held under securities lending arrangements	$ 183,336		$ 183,336	
Liabilities				
Interest rate swaps	$ 180,795		$ 180,795	

During the years ended September 30, 2010 and 2009, the changes in the fair value of the assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	2010	2009
Balance at beginning of year	$ 12,276	$ 13,326
Total gains (losses)		
Dividends and interest	47	54
Realized gains (losses)	213	(67)
Unrealized appreciation (depreciation)	408	(871)
Purchases and sales, net	(1,623)	(166)
Balance at end of year	$ 11,321	$ 12,276

(dollars in thousands)

5. Pledges Receivable and Contributions Receivable from Trusts

Pledges receivable represent unconditional promises to give and are net of allowances for uncollectible amounts. Pledges are recorded at the present value of their estimated future cash flows. Pledges collectible within one year are classified as other current assets, net of allowances, and total $93,036 and $96,679 as of September 30, 2010 and 2009, respectively. Estimated cash flows due after one year are discounted using published treasury bond and note yields that are commensurate with estimated collection risks. The blended discount rate was 0.9% and 1.4% for 2010 and 2009, respectively. Pledges are expected to be collected as follows:

	September 30, 2010	September 30, 2009
Amounts due		
Within one year	$ 106,672	$ 119,460
In one to five years	134,556	157,955
In more than five years	19,830	14,238
Total pledges receivable	261,058	291,653
Less: Unamortized discount	5,535	7,721
	255,523	283,932
Less: Allowance for uncollectibles	23,640	57,097
Net pledges receivable	231,883	226,835
Contributions receivable from trusts	23,992	22,800
	$ 255,875	$ 249,635

6. Property and Equipment

Property and equipment consists of the following:

	September 30, 2010	September 30, 2009
Land and land improvements	$ 156,877	$ 128,537
Buildings and building improvements	4,110,842	3,571,103
Equipment	1,237,484	1,160,878
Construction in progress	691,337	509,497
	6,196,540	5,370,015
Accumulated depreciation	(2,447,306)	(2,015,946)
Property and equipment, net	$ 3,749,234	$ 3,354,069

Depreciation expense for the years ended September 30, 2010 and 2009 was $352,736 and $324,535, respectively. Interest costs, net of interest earned, aggregating $19,661 and $10,559 were capitalized in 2010 and 2009, respectively.

(dollars in thousands)

For the years ended September 30, 2010 and 2009, fully depreciated assets with an original cost of $109,387 and $91,627, respectively, were written off.

7. Long-Term Obligations

Long-term obligations issued by PHS and its affiliates consist of the following:

	September 30, 2010	September 30, 2009
Massachusetts Health and Educational Facilities Authority Revenue Bonds		
Partners HealthCare System Series A, average interest rate of 5.13%, final maturity in 2011	$ 6,863	$ 114,463
Partners HealthCare System Series B, average interest rate of 5.25%, final maturity in 2029	80,134	162,909
Partners HealthCare System Series C, average interest rate of 5.77%, final maturity in 2032	47,473	50,867
Partners HealthCare System Series D, variable interest rate of 0.24% and 0.29% at September 30, 2010 and 2009, respectively, final maturity in 2038	304,405	305,670
Partners HealthCare System Series E, average interest rate of 5.00%, final maturity in 2023	28,193	33,203
Partners HealthCare System Series F, average fixed interest rate of 4.99%, variable interest rate of 0.31% and 0.63% at September 30, 2010 and 2009, respectively, final maturity in 2040	390,156	395,751
Partners HealthCare System Series G, average fixed interest rate of 4.90%, variable interest rate of 0.44% and 0.74% at September 30, 2010 and 2009, respectively, final maturity in 2047	468,900	550,908
Partners HealthCare System Series H, variable interest rate of 0.34% and 0.44% at September 30, 2010 and 2009, respectively, final maturity in 2042	171,143	171,137
Partners HealthCare System Series I, average fixed interest rate of 4.73%, variable interest rate of 0.23% and 0.28%, at September 30, 2010 and 2009, respectively, final maturity in 2044	229,503	229,858
Partners HealthCare System Series J, average interest rate of 4.98%, final maturity in 2039	508,931	-
Partners HealthCare System Series P, variable interest rate of 0.24% and 0.28% at September 30, 2010 and 2009, respectively, final maturity in 2027	150,000	150,000
Massachusetts General Hospital Series F, average interest rate of 6.25%, final maturity in 2012	-	26,407
Partners HealthCare System Series 2007 taxable bonds, average interest rate of 6.26%, final maturity in 2037	100,000	100,000
Other obligations	6,787	-
Capital lease obligations	4,458	3,474
	2,496,946	2,294,647
Less current portion	489,913	820,620
Less auction rate securities held	30,000	50,000
	$ 1,977,033	$ 1,424,027

As of September 30, 2010 and 2009, Partners HealthCare was holding $30,000 and $50,000, respectively, of the Series F and Series G Revenue Bonds issued as auction rate securities (ARS). Although not legally extinguished, the bonds have been reflected as extinguished under generally accepted accounting principles.

(dollars in thousands)

Aggregate maturities and payments of long term obligations during the next five years and thereafter, and other amounts classified as current liabilities, are as follows:

	Scheduled Maturities	Bonds Supported by Partners HealthCare Liquidity	Bonds Supported by Standby Bond Purchase Agreements	Total
2011	$ 38,108	$ 403,400	$ 48,405	$ 489,913
2012	41,129	-	-	41,129
2013	40,170	-	-	40,170
2014	41,848	-	-	41,848
2015	39,380	-	-	39,380
Thereafter	1,844,506	-	-	1,844,506
	$ 2,045,141	$ 403,400	$ 48,405	$ 2,496,946

The scheduled maturities represent annual payments as required under debt repayment schedules. The current portion of long-term obligations includes the payments scheduled to be made in fiscal 2011 along with variable rate bonds supported by Partners HealthCare liquidity and variable rate demand bonds (VRDBs) supported by standby bond purchase agreements with financial institutions that expire prior to September 30, 2011. The variable rate bonds supported by self liquidity provide the bondholder with an option to tender the bonds to Partners HealthCare. The VRDBs supported by standby bond purchase agreements provide the bondholder with an option to tender the bonds to the liquidity provider. Generally accepted accounting principles require bonds backed by standby bond purchase agreements expiring within one year of the balance sheet date to be classified as a current liability.

The fair value of long-term obligations was $2,563,706 and $2,284,473 as of September 30, 2010 and 2009, respectively. The carrying amount of the variable rate debt is a reasonable estimate of its fair value. The fair value of the fixed rate debt is estimated based on quoted market prices for the same or similar issues.

Interest expense approximates interest paid, net of capitalized interest, during the years ended September 30, 2010 and 2009.

Massachusetts Health and Educational Facilities Authority (Authority) Revenue Bonds
In January 2010, PHS issued Partners HealthCare System Series J Revenue Bonds of $499,410 in fixed rate mode, plus bond premium of $9,768. The bond proceeds, net of issuance costs of $5,151, were used to finance certain capital projects totaling $249,904 and to refund a portion of Partners HealthCare System Series A Revenue Bonds ($101,915) that were insured and issued as fixed rate bonds, a portion of Partners HealthCare System Series B Revenue Bonds ($77,033) that were issued as fixed rate bonds, and Partners HealthCare System Series G Revenue Bonds ($75,175) that were insured and issued as ARS.

(dollars in thousands)

In May 2009, PHS issued Partners HealthCare System Series I Revenue Bonds of $225,000, plus bond premium of $4,977. The bond proceeds, net of issuance costs of $2,672, were used to finance certain capital projects totaling $227,305. The Series I Bonds were issued in three subseries, with $50,000 of VRDBs supported by self-liquidity, $50,000 of VRDBs supported by a standby bond purchase agreement, and $125,000 of fixed rate bonds. In addition, Partners HealthCare terminated the insurance contract on the $150,000 Partners HealthCare System Series P Revenue Bonds and remarketed the bonds with new liquidity facilities.

As of September 30, 2010, approximately $18,440 of refunded revenue bonds, which are considered extinguished for accounting purposes, remain outstanding and will be fully redeemed by 2012.

Partners HealthCare Series 2007 taxable bonds and the Authority's Series A through J bonds and the Series P loan to PHS (PHS Bonds) are unsecured general obligations of PHS supported by guarantees from BW/F, The Brigham and Women's Hospital, Inc. (BWH), MGH and the General which may be suspended under certain conditions.

PHS bond agreements contain certain covenants, including a minimum debt service coverage ratio and limitations on additional indebtedness and asset transfers.

Credit Agreement
In June 2009, Partners HealthCare terminated its $50,000 Revolving Line of Credit and entered into a $150,000 Credit Agreement (the "Agreement") with several banks that provides access to same day funds. Advances under the Agreement bear a variable rate of interest based on the London Interbank Offered Rate (LIBOR). There were no amounts outstanding under the Agreement as of September 30, 2010. The Agreement expires in June 2012.

Derivatives
Partners HealthCare uses derivative financial instruments principally to manage interest rate risk and has entered into derivatives to lock in fixed rates for anticipated issuances and refunding of debt. By using derivative financial instruments to manage the risk of changes in interest rates, Partners HealthCare exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty has a liability to Partners HealthCare, which creates credit risk. Partners HealthCare minimizes its credit risk by entering into derivative agreements with several counterparties and requiring the counterparty to post collateral for the benefit of Partners HealthCare based on the credit rating of the counterparty and the fair value of the derivative contract. When the fair value of a derivative contract is negative, Partners HealthCare has a liability to the counterparty and, therefore, it does not possess credit risk. Partners HealthCare may be required to post collateral for the benefit of the counterparty. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

(dollars in thousands)

Partners HealthCare maintains interest rate swap programs on certain of its variable rate revenue bonds. These bonds expose Partners HealthCare to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, Partners HealthCare entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These agreements involve the exchange of fixed rate payments by Partners HealthCare for variable rate payments from several counterparties, based on a percentage of LIBOR.

In April 2010, PHS terminated an $80,000 interest rate swap associated with the Series G-6 Bonds because the bond owner exercised an interest rate conversion option. Partners HealthCare received a termination payment of $4,096, and the interest rate on the Series G-6 Bonds was converted from the Securities Industry and Financial Markets Association index (SIFMA) plus 11 basis points to SIFMA plus 88.25 basis points until June 2017.

The following is a summary of the outstanding positions under these interest rate swap agreements at September 30, 2010:

Bond Series	Notional Amount	Maturity Date (July)	Rate Paid	Rate Received	Hedging Status
2003 D1,D2	$ 150,000	2035	4.40%	67% 1-month LIBOR	Nonhedging
2003 D5,D6	27,300	2015	5.11%	67% 6-month LIBOR	Hedging
2005 F1,F2	150,000	2040	3.63%	67% 1-month LIBOR	Nonhedging
2005 F3,F4	56,200	2025	5.11%	67% 6-month LIBOR	Hedging
2007 G2	75,000	2042	3.46%	67% 1-month LIBOR	Nonhedging
2008 H1	75,000	2042	3.46%	67% 1-month LIBOR	Nonhedging
2009 I1,I2	100,000	2044	3.71%	67% 1-month LIBOR	Hedging
2011	100,000	2046	3.74%	67% 1-month LIBOR	Hedging
2013	100,000	2048	3.80%	67% 1-month LIBOR	Hedging
2015	100,000	2050	3.80%	67% 1-month LIBOR	Hedging
2017	100,000	2052	3.74%	67% 1-month LIBOR	Hedging

Partners HealthCare designates its interest rate swaps that are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions caused by changes in interest rates as hedging instruments at the inception of each contract, with the intention of maintaining hedge accounting treatment over the term of the agreement. However, circumstances may arise whereby the variability in cash flows exceeds the threshold for hedging qualification or the structure of the bonds is changed, resulting in de-designation of the hedge. Effective December 31, 2007, Partners HealthCare de-designated $450,000 of its interest rate swaps as they ceased to qualify for hedge accounting.

Hedging swaps are designated as cash flow hedges; accordingly, the change in fair value of the effective portion of the hedge is reflected as a change in unrestricted net assets and the ineffective portion of the hedge is reflected as a component of nonoperating gains (expenses) in the consolidated statements of operations. Nonhedging swaps are either swaps that have been de-designated as hedges or not designated as hedging instruments at the inception of the agreement; accordingly, the change in fair value is recorded as a component of nonoperating gains (expenses) in the consolidated statements of operations.

(dollars in thousands)

The fair value of interest rate swaps is as follows:

Balance Sheet Location	September 30, 2010	September 30, 2009
Derivatives designated as hedging instruments		
Interest rate swaps liability	$ 143,621	$ 94,529
Derivatives not designated as hedging instruments		
Other assets	-	3,237
Interest rate swaps liability	127,781	89,503

The effects of interest rate swaps on the consolidated statements of operations are as follows:

	Amount of Gain (Loss) Recognized in Changes in Unrestricted Net Assets Years Ended September 30,		Amount of Gain (Loss) Recognized in Excess of Revenues Over Expenses Years Ended September 30,	
Statement of Operations Location	**2010**	**2009**	**2010**	**2009**
Derivatives designated as hedging instruments				
Change in fair value of hedging interest rate swaps	$ (46,638)	$ (46,844)	$ -	$ -
Amortization of swaption premiums			1,486	1,484
Hedge ineffectiveness			(3,939)	139
Derivatives not designated as hedging instruments				
Change in fair value of nonhedging interest rate swaps			(37,419)	(39,760)
Reclassification of net asset balance upon hedge de-designation	818	818	(818)	(818)
	$ (45,820)	$ (46,026)	$ (40,690)	$ (38,955)

Partners HealthCare's derivative contracts contain provisions that require collateral to be posted under certain circumstances. The collateral thresholds reflect the current credit ratings issued by major credit rating agencies on Partners HealthCare's and the counterparty's debt. Declines in Partners HealthCare's or the counterparty's credit ratings would result in decreases in the collateral thresholds and consequently, the potential for additional collateral postings by Partners HealthCare or the counterparty. As of September 30, 2010 and 2009, the aggregate fair value of all derivative instruments was a net liability of $271,402 and $180,795, respectively, for which Partners HealthCare had posted collateral of $48,948 and $10,730, respectively. Partners HealthCare has established procedures to ensure that liquidity is available to meet collateral posting requirements.

Upon the occurrence of certain events of default or termination events identified in the derivative contracts, either Partners HealthCare or the counterparty could terminate the contracts in accordance with their terms. Termination results in the payment of a termination amount by one party that attempts to compensate the other party for its economic losses. If interest rates at the time of termination are lower than those specified in the derivatives contract, Partners HealthCare will make a payment to the counterparty. Conversely, if interest rates at such time are higher, the counterparty will make a payment to Partners HealthCare.

(dollars in thousands)

Partners HealthCare also enters into foreign currency options and futures primarily as hedges on securities and indices. Forward contracts are used as currency hedges. These agreements are limited in use and generally do not exceed one year.

8. Commitments

Leases

Partners HealthCare has capital and noncancelable operating leases for certain buildings and equipment. Minimum future lease commitments under noncancelable leases for the next five years and thereafter are as follows:

	Capital Leases	Operating Leases
2011	$ 1,510	$ 166,318
2012	1,490	152,284
2013	980	143,756
2014	747	133,779
2015	252	121,374
Thereafter	-	649,506
Total lease payments	4,979	$ 1,367,017
Less amount representing interest	521	
Capital lease obligations at September 30, 2010	$ 4,458	

Rental expense under operating leases approximated $209,785 in 2010 and $195,928 in 2009.

Construction Projects

The General is constructing a building (the Lunder Building) that will house a relocated and expanded radiation oncology department, expanded emergency services, three levels of operating and procedure suites, and 150 neurosciences and medical oncology intensive care and acute care beds. In addition, space will be dedicated to a new sterile processing department and a central receiving dock. As of September 30, 2010, costs incurred in connection with the new building approximated $390,887, with approximately $138,231 in outstanding construction contracts. Planning and construction began in November 2006 and the total project cost is expected to be approximately $686,600, with occupancy scheduled for 2011.

In October 2005, PHS paid $4,750 in exchange for the development rights to certain parcels of land in Charleston, Massachusetts (Yards End), the planned site of a new facility for Spaulding Rehabilitation Hospital Corporation (Spaulding). Spaulding's share of the purchase price was $2,048. In November 2008, Spaulding received approval from PHS to proceed with final design and permitting for a 132-bed hospital at Yards End, and in November 2009, Spaulding received approval from PHS to complete the project for a total cost estimated at $225,000. In July 2010 Spaulding's DON for the new facility was approved by the Massachusetts Department of Public Health and ground breaking for the new facility was held in October 2010.

(dollars in thousands)

9. Pension and Postretirement Healthcare Benefit Plans

Substantially all employees of Partners HealthCare are covered under various noncontributory defined benefit pension plans and various defined contribution pension plans. In addition, certain affiliates provide subsidized healthcare benefits for retired employees on a self-insured basis, with the benefit obligation being partially funded. These benefits are administered through an insurance company and are accounted for on the accrual basis, which includes an estimate of future payments for claims incurred.

In 2009, Partners HealthCare changed its defined benefit plans measurement date from June 30 to September 30. This measurement date change resulted in an increase in liabilities of $17,754, a decrease in assets of $55,297 and a decrease in unrestricted net assets of $73,051.

Total expense for these plans consists of the following:

	Years Ended September 30, 2010	2009
Defined benefit plans	$ 151,573	$ 116,339
Defined contribution plans	118,237	112,071
Postretirement healthcare benefit plans	7,852	6,710
	$ 277,662	$ 235,120

Information regarding benefit obligations, plan assets, funded status, expected cash flows and net period benefit cost follows within this footnote.

Benefit Obligations

Change in Benefit Obligations	Defined Benefit Pension Plans 2010	2009	Postretirement Healthcare Benefit Plans 2010	2009
Benefit obligations at beginning of year	$ 2,819,575	$ 2,218,756	$ 87,880	$ 72,040
Service cost	162,594	104,999	3,879	2,573
Interest cost	168,154	157,013	4,772	4,972
Plan amendments	(1,380)	32,374	-	-
Actuarial loss	42,947	645,313	3,671	11,888
Benefits paid	(185,167)	(113,167)	(4,144)	(4,085)
Expenses paid	(7,382)	(5,754)	-	-
Employee contributions	-	-	5,209	4,514
Adjustment for change in measurement date	-	(219,959)	-	(4,022)
Benefit obligations at end of year	$ 2,999,341	$ 2,819,575	$ 101,267	$ 87,880

(dollars in thousands)

The accumulated benefit obligation for all defined benefit pension plans at the end of 2010 and 2009 was $2,768,122 and $2,547,861, respectively.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligation	**Defined Benefit Pension Plans 2010**	**2009**	**Postretirement Healthcare Benefit Plans 2010**	**2009**
Discount rate	5.50%	5.75%	4.00% - 5.50%	4.55% - 5.75%
Rate of compensation increase				
Professional staff	5.05%	6.02%	N/A	N/A
Other than professional staff	3.00 - 4.10%	5.00% - 5.10%	N/A	N/A
Healthcare cost trend rate for next year	N/A	N/A	8.00%	8.50%
Rate to which the cost trend rate is to decline	N/A	N/A	5.00%	5.00%
Year that rate reaches the ultimate trend rate	N/A	N/A	2017	2017

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effect:

	One-Percentage-Point Increase	**One-Percentage-Point Decrease**
Effect on postretirement benefit obligation	$ 1,491	$ (1,371)

Plan Assets

Change in Plan Assets	**Defined Benefit Pension Plans 2010**	**2009**	**Postretirement Healthcare Benefit Plans 2010**	**2009**
Fair value of plan assets at beginning of year	$ 2,052,797	$ 2,291,426	$ 20,479	$ 16,176
Actual return on plan assets	213,136	55,888	1,614	682
Employer contributions	188,613	98,234	4,144	3,566
Employee contributions	-	-	5,209	4,514
Benefits paid	(185,167)	(113,167)	(4,144)	(4,085)
Expenses paid	(7,382)	(5,754)	-	-
Adjustment for change in measurement date	-	(273,830)	-	(374)
Fair value of plan assets at end of year	$ 2,261,997	$ 2,052,797	$ 27,302	$ 20,479

The assets of the defined benefit pension plans are aggregated in a single master trust (Master Trust) and managed as one asset pool. The investment objective for the Master Trust 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) Partners HealthCare's ability and willingness to incur market risk.

(dollars in thousands)

Oversight of the management of Partners HealthCare's investable assets, including the Master Trust, is provided by the Investment Committee of the Board of Directors. The Committee seeks to add incremental returns by manager selection and asset allocation (increasing/decreasing allocations within allowable ranges based on current and projected valuations). The Committee is supported by a professional staff, an outside investment consultant, and a pension actuarial consultant.

Partners HealthCare utilizes a policy benchmark allocation that balances projected returns, correlations and volatility of various asset classes within the overall risk tolerance. The allocations are actively managed based on relative valuations among and within asset classes and the perceived ability of managers to outperform passive benchmarks. Exposure by asset class is the sum of the net exposures reported by each manager. Asset performance is monitored monthly and the portfolio is rebalanced if asset classes exceed explicit ranges.

The following table presents the policy benchmark allocation components (and allowable ranges) and the reported exposures of the Master Trust at September 30, 2010:

	Policy Benchmarks	Reported Exposures
Domestic equity	22 %	20 %
Foreign developed equity	23 %	21 %
Emerging markets equity	7 %	10 %
Private equity	8 %	8 %
Total equity (+/- 15%)	60 %	59 %
Fixed income (+/- 10%)	20 %	23 %
Inflation defensive (+/- 10%)	10 %	5 %
Cash and other (+/- 10%)	10 %	13 %
	100 %	100 %

Inflation defensive strategies include investments in real estate assets, commodities, timber and inflation protection bonds. Other exposures include currency and volatility based strategies.

Within the Master Trust, assets are allocated to managers with investment mandates that may range from a single sub-asset class to very broad mandates; with restrictions that range from long-only to unconstrained; and with management structures ranging from separately managed funds to mutual/commingled funds to private partnerships. Less market sensitive managers employ absolute return, long/short equity and diversified strategies, which in the aggregate are expected to generate positive returns on a consistent basis. Investment risks (concentration, correlation, valuation, liquidity, leverage, mandate compliance, etc.) are measured at the manager level as well as the pool level. The active risk of the Master Trust is determined by a statistical regression of the most recent two (2) year return series to that of the policy benchmark.

(dollars in thousands)

The following table presents the capital allocations by manager mandate within the Master Trust at September 30, 2010. Some managers, particularly Real assets and Less market sensitive managers, invest allocated capital among multiple policy benchmark asset classes.

	Capital Allocations $	Capital Allocations %
Traditional U.S. equity	$ 288,142	13 %
Traditional foreign developed equity	364,556	16 %
Traditional emerging markets equity	203,951	9 %
Private equity	131,721	6 %
Real assets	217,880	10 %
Less market sensitive managers	685,508	30 %
Fixed income managers	370,239	16 %
	$ 2,261,997	100 %

The postretirement healthcare benefit plans assets are invested in mutual funds, with the objective of achieving returns to satisfy plan obligations, with a level of volatility commensurate with Partners HealthCare's overall financial profile.

The following table presents plan assets, by form of ownership, as of September 30, 2010 and 2009 measured at fair value on a recurring basis using the fair value hierarchy defined in Note 4:

		Fair Value Measurements Using		
	Fair Value at September 30, 2010	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Defined Benefit Pension Plans				
Invested cash equivalents	$ 10,419	$ 10,419	$ -	$ -
Separately managed investments	589,289	296,607	292,682	-
Mutual funds	133,238	133,238	-	-
Commingled funds	199,159	-	199,159	-
Private partnerships	1,329,892	-	-	1,329,892
	2,261,997	440,264	491,841	1,329,892
Postretirement Healthcare Benefit Plans				
Mutual funds	27,302	24,020	3,282	-
Total plan assets	$ 2,289,299	$ 464,284	$ 495,123	$ 1,329,892

(dollars in thousands)

	Fair Value at September 30, 2009	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Defined Benefit Pension Plans				
Invested cash equivalents	$ 50,949	$ 50,949	$ -	$ -
Separately managed investments	562,264	345,961	216,303	-
Mutual funds	169,287	169,287	-	-
Commingled funds	185,297	-	185,297	-
Private partnerships	1,085,000	-	-	1,085,000
	2,052,797	566,197	401,600	1,085,000
Postretirement Healthcare Benefit Plans				
Mutual funds	20,479	17,428	3,051	-
Total plan assets	$ 2,073,276	$ 583,625	$ 404,651	$ 1,085,000

During the year ended September 30, 2010, the change in the fair value of the assets measured using significant unobservable inputs (Level 3) is comprised of the following:

Balance at beginning of year	$ 1,085,000
Total gains (losses)	
Dividends and interest	1,245
Realized gains (losses)	10,537
Unrealized appreciation (depreciation)	108,302
Purchases and sales, net	124,808
Balance at end of year	$ 1,329,892

(dollars in thousands)

Funded Status

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

End of Year	Defined Benefit Pension Plans 2010	Defined Benefit Pension Plans 2009	Postretirement Healthcare Benefit Plans 2010	Postretirement Healthcare Benefit Plans 2009
Fair value of plan assets at measurement date	$ 2,261,997	$ 2,052,797	$ 27,302	$ 20,479
Benefit obligations at measurement date	(2,999,341)	(2,819,575)	(101,267)	(87,880)
Funded status	$ (737,344)	$ (766,778)	$ (73,965)	$ (67,401)
Amounts recognized in the balance sheet consist of				
Current liabilities	$ (3,904)	$ (3,061)	$ (3,575)	$ (3,305)
Long-term liabilities	(733,440)	(763,717)	(70,390)	(64,096)
	$ (737,344)	$ (766,778)	$ (73,965)	$ (67,401)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets consist of				
Actuarial net loss (gain)	$ 706,713	$ 699,955	$ 17,929	$ 15,094
Prior service cost (credit)	11,135	10,289	(82)	(103)
	$ 717,848	$ 710,244	$ 17,847	$ 14,991
Amounts recognized in unrestricted net assets consist of				
Current year actuarial (gain) loss	$ 23,066	$ 765,517	$ 3,579	$ 12,324
Amortization of actuarial gain (loss)	(16,308)	6,768	(743)	(301)
Current year prior service (credit) cost	(1,380)	32,373	-	-
Amortization of prior service credit (cost)	2,226	(37,964)	20	20
	$ 7,604	$ 766,694	$ 2,856	$ 12,043

At the end of 2010 and 2009, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets, were as follows:

Accumulated Benefit Obligation in Excess of Plan Assets	2010	2009
Projected benefit obligation	$ 2,999,341	$ 2,819,575
Accumulated benefit obligation	2,768,122	2,547,861
Fair value of plan assets	2,261,997	2,052,797

(dollars in thousands)

Expected Cash Flows

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

	Defined Benefit Pension Plans	Postretirement Healthcare Benefit Plans	Medicare Subsidy
Expected employer contributions			
2011	$ 175,319	$ 4,804	
Expected benefit payments (receipts)			
2011	$ 111,381	$ 5,124	$ (320)
2012	118,399	5,522	(313)
2013	131,608	5,829	(303)
2014	145,643	6,190	(291)
2015	158,140	6,527	(275)
2016 and thereafter	1,024,153	30,717	(1,097)

Net Periodic Benefit Cost

	Defined Benefit Pension Plans 2010	Defined Benefit Pension Plans 2009	Postretirement Healthcare Benefit Plans 2010	Postretirement Healthcare Benefit Plans 2009
Service cost	$ 162,594	$ 104,999	$ 3,879	$ 2,573
Interest cost	168,154	157,013	4,772	4,972
Expected return on plan assets	(193,257)	(176,869)	(1,522)	(1,116)
Amortization of				
Prior service cost (credit)	(2,226)	37,964	(20)	(20)
Actuarial net (gain) loss	16,308	(6,768)	743	301
Net periodic benefit cost	$ 151,573	$ 116,339	$ 7,852	$ 6,710

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending September 30, 2011, are as follows:

	Defined Benefit Pension Plans	Postretirement Healthcare Benefit Plans
Actuarial net loss	$ 22,574	$ 904
Prior service cost (credit)	1,285	(20)

(dollars in thousands)

Weighted-Average Assumptions Used to Determine Net Periodic Pension and Postretirement Cost	**Defined Benefit Pension Plans 2010**	**Defined Benefit Pension Plans 2009**	**Postretirement Healthcare Benefit Plans 2010**	**Postretirement Healthcare Benefit Plans 2009**
Discount rate	5.75%	7.65%	4.55 - 5.75%	6.50% - 7.65%
Expected return on plan assets	8.25%	8.25%	7.50%	7.50%
Rate of compensation increase				
Professional staff	6.02%	6.02%	N/A	N/A
Other than professional staff	5.00 - 5.10%	5.00% - 5.10%	N/A	N/A
Healthcare cost trend rate for this year	N/A	N/A	8.50%	9.00%
Rate to which the cost trend rate is to decline	N/A	N/A	5.00%	5.00%
Year that rate reaches the ultimate trend rate	N/A	N/A	2017	2017

Partners HealthCare uses a long term return assumption which is validated annually by obtaining long term asset return, volatility and correlation projections for relevant asset class indexes; modifying volatility and correlations to reflect the actual historical experience of the active managers; calculating the expected return using benchmark weights and indexes; and, comparing the return assumption to the sum of the expected return and the historical outperformance of the actual return versus the benchmark. Partners HealthCare regularly monitors the active risk of the Master Trust by a statistical regression of the return series of the actual portfolio to that of the policy benchmark.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effect:

	One-Percentage-Point Increase	**One-Percentage-Point Decrease**
Effect on service and interest cost	$ 78	$ (72)

10. Professional Liability Insurance

Partners HealthCare insures substantially all of its professional and general liability risk on a claims-made basis in cooperation with other organizations in the Greater Boston area through a captive insurance company, Controlled Risk Insurance Company Ltd. (CRICO). The policy covers claims made during its term, but not those occurrences for which claims may be made after expiration of the policy, except for certain tail liabilities which CRICO has assumed on an occurrence basis through December 31, 2010. Management intends to renew its coverage on a claims-made basis and has no reason to believe that it will be prevented from such renewal.

PHS owns 10% of CRICO. The investment is accounted for on the cost basis of accounting. In addition, Partners HealthCare follows the accounting policy of establishing reserves to cover all professional liability claims incurred but not reported to the insurance company as of the end of the year (tail liability), excluding the tail liability assumed by CRICO. These reserves have been estimated by consulting actuaries on a discounted basis using an interest rate of 4.75% and 5.75% at September 30, 2010 and 2009, respectively.

(dollars in thousands)

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

11. Concentration of Credit Risk

Financial instruments that potentially subject Partners HealthCare to concentration of credit risk consist of patient accounts receivable, research grants receivable, pledges receivable, certain investments and interest rate swaps.

Partners HealthCare receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payers, including Medicare, Medicaid, Blue Cross and Blue Shield of Massachusetts, Harvard Pilgrim Health Care and Tufts Health Plan. Research funding is provided through many government and private sponsors. Pledges receivable are due from multiple donors. Partners HealthCare assesses the credit risk for pledges based on history and the financial wherewithal of donors, most of which are individuals or organizations well known to Partners HealthCare.

Investments, which include government and agency securities, stocks and corporate bonds, and private partnerships and other investments are not concentrated in any corporation or industry or with any single counterparty. Alternative investments are less liquid than Partners HealthCare's other investments. The reported values of the alternative investments may differ significantly from the values that would have been used had a ready market for those securities existed. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

12. Restricted Net Assets

Restricted net assets are available for the following purposes:

	September 30, 2010	September 30, 2009
Temporarily restricted		
Charity care	$ 100,626	$ 99,850
Buildings and equipment	191,370	220,773
Clinical care, research and academic	532,430	509,305
	$ 824,426	$ 829,928
Permanently restricted		
Charity care	$ 19,134	$ 19,042
Buildings and equipment	2,433	2,433
Clinical care, research and academic	289,324	277,419
	$ 310,891	$ 298,894

(dollars in thousands)

Endowment

Partners HealthCare's endowment consists of over 1,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the boards to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the boards to function as endowments, are classified and reported as restricted or unrestricted based on the existence or absence of donor-imposed restrictions.

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

Endowment Funds with Deficits

From time to time, the value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When such endowment deficits exist, they are classified as a reduction to unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $1,699 and $3,328 at September 30, 2010 and 2009, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or subsequent endowment additions.

The following presents the endowment net asset composition by type of fund as of September 30, 2010 and 2009 and the changes in endowment assets for the years ended September 30, 2010 and 2009:

Endowment Net Asset Composition by Type of Fund as of September 30, 2010	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (1,699)	$ 431,757	$ 298,168	$ 728,226
Board-designated endowment funds	807,179	-	-	807,179
Total funds	$ 805,480	$ 431,757	$ 298,168	$ 1,535,405

(dollars in thousands)

Changes in Endowment Net Assets for the Year Ended September 30, 2010	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at September 30, 2009	$ 715,764	$ 423,331	$ 286,522	$ 1,425,617
Investment return				
Investment income	4,746	3,903	15	8,664
Net realized and unrealized appreciation (depreciation)	69,830	37,631	270	107,731
Total investment return	74,576	41,534	285	116,395
Contributions	3,869	-	14,910	18,779
Appropriation of endowment assets for expenditure	(31,071)	(33,199)	-	(64,270)
Other changes	42,342	91	(3,549)	38,884
Total changes	89,716	8,426	11,646	109,788
Endowment net assets at September 30, 2010	$ 805,480	$ 431,757	$ 298,168	$ 1,535,405

Endowment Net Asset Composition by Type of Fund as of September 30, 2009	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (3,328)	$ 423,331	$ 286,522	$ 706,525
Board-designated endowment funds	719,092	-	-	719,092
Total funds	$ 715,764	$ 423,331	$ 286,522	$ 1,425,617

Changes in Endowment Net Assets for the Year Ended September 30, 2009	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at October 1, 2008	$ 742,835	$ 450,791	$ 286,917	$ 1,480,543
Investment return				
Investment income	4,290	3,578	29	7,897
Net realized and unrealized appreciation (depreciation)	1,362	3,069	(129)	4,302
Total investment return	5,652	6,647	(100)	12,199
Contributions	4,470	-	8,289	12,759
Appropriation of endowment assets for expenditure	(34,304)	(34,013)	-	(68,317)
Other changes	(2,889)	(94)	(8,584)	(11,567)
Total changes	(27,071)	(27,460)	(395)	(54,926)
Endowment net assets at September 30, 2009	$ 715,764	$ 423,331	$ 286,522	$ 1,425,617

(dollars in thousands)

Conditional Pledge

During 2009, the General signed an agreement (Ragon Agreement) with The Massachusetts Institute of Technology (MIT), The President and Fellows of Harvard College (Harvard), and The Phillip and Susan Ragon Foundation (Ragon Foundation), to establish the Phillip T. and Susan M. Ragon Institute (Ragon Institute) as a joint research center of the General, MIT and Harvard with the purpose of harnessing the potential of the immune response to combat and conquer human diseases, integrating biomedical research with emerging engineering technologies (with the main initial focus being the development of an AIDS vaccine), and educating and training scientists. The Ragon Foundation committed to provide funding for the Ragon Institute of $100,000 over ten years through the General (as the administrative home for the Ragon Institute), beginning retroactively on January 1, 2008. The Ragon Foundation has the ability to slow, suspend, or eliminate funding based on restrictions described in the Ragon Agreement. Additionally, any funding not paid by December 31, 2017 will no longer be due by the Ragon Foundation. Due to the conditions within the Agreement, funding is recognized when received, with no pledge receivable recorded for the balance of the commitment.

Through September 30, 2010, total funding of $34,000 was received, with $10,000 received for the year ended September 30, 2010, and total net expenses of $18,995 were incurred, including $9,254 for the year ended September 30, 2010. As of September 30, 2010, unspent funding of $15,005 has been recorded as temporarily restricted net assets, to be released to unrestricted net assets after qualifying expenses have been incurred.

13. Functional Expenses

Total operating expenses by function are as follows:

	Years Ended September 30,	
	2010	2009
Healthcare services	$ 5,797,672	$ 5,478,895
Research and academic	1,370,372	1,254,481
General and administrative	762,587	717,035
	$ 7,930,631	$ 7,450,411

14. Contingencies

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

(dollars in thousands)

15. Subsequent Events

Partners HealthCare has assessed the impact of subsequent events through December 10, 2010, the date the audited financial statements were issued, and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

Report of Independent Auditors on Accompanying Consolidating Information

To the Board of Directors of
Partners HealthCare System, Inc. and Affiliates

The report on our audits of the consolidated financial statements of Partners HealthCare System, Inc. and Affiliates as of September 30, 2010 and 2009 and for the years then ended appears on page one of this document. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual affiliates. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets of the individual affiliates. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 10, 2010

Partners HealthCare System, Inc. and Affiliates
Consolidating Balance Sheets
September 30, 2010

(dollars in thousands)	BW/F and Affiliates	MGH and Affiliates	NSMC and Affiliates	NWHCS and Affiliates	PCC and Affiliates	PCHI	PHS	Eliminations	Consolidated
Assets									
Current assets									
Cash and equivalents	$ 226,240	$ 199,783	$ 2,630	$ 45,906	$ 36,739	$ 37,590	$ 78,031	$ -	$ 626,919
Investments	289,512	662,176	17,420	119,922	(2,021)	(6,500)	163,666	(193,426)	1,050,749
Collateral held under securities lending arrangements	-	-	-	-	-	-	129,183	-	129,183
Current portion of investments limited as to use	211,604	410,461	21,586	64,749	25,039	59,226	292,251	(39)	1,084,877
Patient accounts receivable, net	259,972	296,759	47,522	44,981	44,272	4,874	-	-	698,380
Due from affiliates	-	-	-	-	-	-	178,136	(178,136)	-
Research grants receivable	57,349	74,189	-	-	974	-	-	-	132,512
Other current assets	84,890	114,039	7,546	12,691	4,943	6,128	22,383	-	252,620
Receivable for settlements with third-party payers	8,202	18,754	7,605	2,016	3,701	-	-	(806)	39,472
Current portion of notes receivable from affiliates	144	15	-	-	-	-	127,658	(127,817)	-
Total current assets	1,137,913	1,776,176	104,309	290,265	113,647	101,318	991,308	(500,224)	4,014,712
Investments limited as to use, less current portion	500,450	1,501,029	12,644	14,637	15,389	868	243,831	(182,825)	2,106,023
Long-term investments	144,586	693,692	37,531	45,835	9,755	-	1,150	(93,636)	838,913
Pledges receivable, net and contributions receivable from trusts, less current portion	35,890	120,236	1,608	4,002	1,103	-	-	-	162,839
Property and equipment, net	1,075,246	1,939,937	135,984	189,184	112,649	16,726	279,508	-	3,749,234
Other assets	8,474	7,071	5,119	6,940	1,185	10,208	79,617	-	118,614
Notes receivable from affiliates, less current portion	1,406	474	-	-	-	-	1,753,319	(1,755,199)	-
Total assets	$ 2,903,965	$ 6,038,615	$ 297,195	$ 550,863	$ 253,728	$ 129,120	$ 3,348,733	$ (2,531,884)	$ 10,990,335
Liabilities and Net Assets									
Current liabilities									
Current portion of long-term obligations	$ 267	$ 1,131	$ -	$ -	$ (77)	$ 513	$ 488,693	$ (614)	$ 489,913
Current portion of notes payable to affiliates	33,276	38,414	37,846	8,789	9,483	-	-	(127,808)	-
Accounts payable and accrued expenses	92,802	129,216	8,213	24,320	10,062	80,341	252,150	(188)	596,916
Accrued compensation and benefits	170,806	193,442	33,532	24,916	27,104	5,601	77,009	-	532,410
Collateral due under securities lending arrangements	-	-	-	-	-	-	129,183	-	129,183
Current portion of accruals for settlements with third-party payers	8,772	17,348	8,133	4,930	1,555	-	(6,594)	-	34,144
Unexpended funds on research grants	66,627	84,567	-	196	386	-	737	-	152,513
Due to affiliates	71,278	76,799	7,755	7,927	9,715	5,087	-	(178,561)	-
Total current liabilities	443,828	540,917	95,479	71,078	58,228	91,542	941,178	(307,171)	1,935,079
Other liabilities									
Accrual for settlements with third-party payers, less current portion	7,888	3,635	2,520	1,352	58	-	-	-	15,453
Accrued professional liability	26,556	33,509	5,873	4,322	-	-	-	-	70,260
Accrued employee benefits	234,259	689,918	21,995	1,211	2,489	868	27,096	-	977,836
Interest rate swaps liability	-	-	-	-	-	-	271,402	-	271,402
Accrued other	8,953	48,169	2,422	1,117	1,170	-	154,933	-	216,764
	277,656	775,231	32,810	8,002	3,717	868	453,431	-	1,551,715
Long-term obligations, less current portion	1,033	2,093	-	-	2,996	686	1,999,611	(29,386)	1,977,033
Notes payable to affiliates, less current portion	673,339	729,569	147,337	161,593	45,145	-	-	(1,756,983)	-
Total liabilities	1,395,856	2,047,810	275,626	240,673	110,086	93,096	3,394,220	(2,093,540)	5,463,827
Net assets									
Unrestricted	1,306,096	3,060,968	(17,115)	265,412	131,237	36,024	(46,723)	(344,708)	4,391,191
Temporarily restricted	149,106	700,147	22,706	34,767	11,250	-	86	(93,636)	824,426
Permanently restricted	52,907	229,690	15,978	10,011	1,155	-	1,150	-	310,891
Total net assets	1,508,109	3,990,805	21,569	310,190	143,642	36,024	(45,487)	(438,344)	5,526,508
Total liabilities and net assets	$ 2,903,965	$ 6,038,615	$ 297,195	$ 550,863	$ 253,728	$ 129,120	$ 3,348,733	$ (2,531,884)	$ 10,990,335

Partners HealthCare System, Inc. and Affiliates
Consolidating Balance Sheets
September 30, 2009

(dollars in thousands)	BW/F and Affiliates	MGH and Affiliates	NSMC and Affiliates	NWHCS and Affiliates	PCC and Affiliates	PCHI	PHS	Eliminations	Consolidated
Assets									
Current assets									
Cash and equivalents	$ 259,754	$ 129,077	$ 20,975	$ 36,451	$ 36,273	$ 30,896	$ 47,806	$ -	$ 561,232
Investments	196,361	698,478	24,270	111,294	(35,559)	-	202,483	(150,433)	1,046,894
Collateral held under securities lending arrangements	-	-	-	-	-	-	183,336	-	183,336
Current portion of investments limited as to use	196,757	339,406	28,748	56,757	47,791	43,777	184,840	(20)	898,056
Patient accounts receivable, net	272,521	311,323	48,594	40,850	36,209	2,739	2	-	712,238
Due from affiliates	-	-	-	-	-	-	213,510	(213,510)	-
Research grants receivable	56,011	76,331	-	-	845	-	3	-	133,190
Other current assets	92,363	118,917	8,533	13,942	2,098	4,554	21,147	-	261,554
Receivable for settlements with third-party payers	7,047	21,729	3,610	726	1,017	-	-	(799)	33,330
Current portion of notes receivable from affiliates	144	15	-	-	-	-	107,974	(108,133)	-
Total current assets	1,080,958	1,695,276	134,730	260,020	88,674	81,966	961,101	(472,895)	3,829,830
Investments limited as to use, less current portion	426,992	1,340,797	11,323	11,872	12,414	999	171,592	(118,530)	1,857,459
Long-term investments	133,061	662,954	40,706	43,633	8,636	-	1,154	(60,328)	829,816
Pledges receivable, net and contributions receivable from trusts, less current portion	39,824	106,110	1,757	4,141	1,028	-	96	-	152,956
Property and equipment, net	1,074,604	1,630,988	132,046	195,458	56,312	16,425	248,236	-	3,354,069
Other assets	4,900	7,063	5,387	8,440	3,968	10,931	59,026	-	99,715
Notes receivable from affiliates, less current portion	1,406	362	-	-	-	-	1,612,296	(1,614,064)	-
Total assets	$ 2,761,745	$ 5,443,550	$ 325,949	$ 523,564	$ 171,032	$ 110,321	$ 3,053,501	$ (2,265,817)	$ 10,123,845
Liabilities and Net Assets									
Current liabilities									
Current portion of long-term obligations	$ 860	$ 9,241	$ -	$ 360	$ 1,125	$ 468	$ 808,566	$ -	$ 820,620
Current portion of notes payable to affiliates	27,614	30,623	33,397	7,874	8,614	-	-	(108,122)	-
Accounts payable and accrued expenses	93,131	116,978	8,590	20,577	4,085	67,083	272,526	(1,139)	581,831
Accrued compensation and benefits	157,624	187,762	34,856	21,969	20,914	4,467	49,733	-	477,325
Collateral due under securities lending arrangements	-	-	-	-	-	-	183,336	-	183,336
Current portion of accruals for settlements with third-party payers	11,962	4,179	1,599	2,851	1,962	-	(37)	-	22,516
Unexpended funds on research grants	76,122	88,535	-	316	250	1	266	-	165,490
Due to affiliates	80,852	92,872	17,735	14,024	4,866	2,619	-	(212,968)	-
Total current liabilities	448,165	530,190	96,177	67,971	41,816	74,638	1,314,390	(322,229)	2,251,118
Other liabilities									
Accrual for settlements with third-party payers, less current portion	19,300	9,909	10,761	4,932	191	-	-	-	45,093
Accrued professional liability	24,129	31,086	5,430	3,767	-	-	-	-	64,412
Accrued employee benefits	273,572	647,393	20,331	975	3,362	999	32,656	-	979,288
Interest rate swaps liability	-	-	-	-	-	-	184,032	-	184,032
Accrued other	4,704	52,959	3,023	556	413	-	139,607	-	201,262
	321,705	741,347	39,545	10,230	3,966	999	356,295	-	1,474,087
Long-term obligations, less current portion	-	16,035	-	-	2,440	1,196	1,454,356	(50,000)	1,424,027
Notes payable to affiliates, less current portion	643,006	606,445	160,203	154,055	52,129	-	-	(1,615,838)	-
Total liabilities	1,412,876	1,894,017	295,925	232,256	100,351	76,833	3,125,041	(1,988,067)	5,149,232
Net assets									
Unrestricted	1,151,581	2,650,369	(7,236)	247,939	60,056	33,488	(72,984)	(217,422)	3,845,791
Temporarily restricted	148,847	676,312	21,444	33,883	9,476	-	294	(60,328)	829,928
Permanently restricted	48,441	222,852	15,816	9,486	1,149	-	1,150	-	298,894
Total net assets	1,348,869	3,549,533	30,024	291,308	70,681	33,488	(71,540)	(277,750)	4,974,613
Total liabilities and net assets	$ 2,761,745	$ 5,443,550	$ 325,949	$ 523,564	$ 171,032	$ 110,321	$ 3,053,501	$ (2,265,817)	$ 10,123,845

Partners HealthCare System, Inc. and Affiliates
Consolidating Statements of Operations
Year Ended September 30, 2010

(dollars in thousands)	BW/F and Affiliates	MGH and Affiliates	NSMC and Affiliates	NWHCS and Affiliates	PCC and Affiliates	PCHI	PHS	Eliminations	Consolidated
Operating revenue									
Net patient service revenue	$ 2,184,615	$ 2,742,451	$ 488,808	$ 388,618	$ 336,207	$ 54,281	$ 6,594	$ (19,123)	$ 6,182,451
Direct academic and research revenue	436,220	599,214	1,118	1,717	4,359	-	3,161	-	1,045,789
Indirect academic and research revenue	133,571	189,057	-	134	1,360	-	461	-	324,583
Other revenue	118,108	233,562	17,394	14,802	4,183	165,166	618,279	(599,006)	572,488
Total operating revenue	2,872,514	3,764,284	507,320	405,271	346,109	219,447	628,495	(618,129)	8,125,311
Operating expenses									
Employee compensation and benefits	1,354,276	1,816,118	309,640	228,426	247,716	117,284	347,957	5,883	4,427,300
Supplies and other expenses	772,802	936,341	166,285	121,388	87,142	92,036	148,466	(419,300)	1,905,160
Direct academic and research expenses	436,220	599,214	1,118	1,717	4,359	-	3,161	-	1,045,789
Depreciation and amortization	119,563	146,637	19,586	22,036	7,093	5,561	36,368	-	356,844
Provision for bad debts	37,627	52,770	15,104	5,994	3,881	1,968	2,517	-	119,861
Interest	26,355	21,897	8,167	6,515	2,232	187	73,579	(63,255)	75,677
Total operating expenses	2,746,843	3,572,977	519,900	386,076	352,423	217,036	612,048	(476,672)	7,930,631
Income (loss) from operations	125,671	191,307	(12,580)	19,195	(6,314)	2,411	16,447	(141,457)	194,680
Nonoperating gains (expenses)									
Income (loss) from investments	62,130	171,623	4,617	15,866	2,001	125	35,996	(182,417)	109,941
Change in fair value of nonhedging interest rate swaps	-	-	-	-	-	-	(40,690)	-	(40,690)
Gifts and other, net of expenses	(12,782)	(14,479)	(511)	(1,252)	(2,582)	-	(2,998)	(3,381)	(37,985)
Academic and research gifts, net of expenses	25,696	16,627	743	3,196	939	-	(3,536)	(1,126)	42,539
System development funding	(46,661)	(58,810)	(10,541)	(8,897)	(5,826)	-	(14,000)	144,735	-
Total nonoperating gains (expenses), net	28,383	114,961	(5,692)	8,913	(5,468)	125	(25,228)	(42,189)	73,805
Excess (deficit) of revenues over expenses	154,054	306,268	(18,272)	28,108	(11,782)	2,536	(8,781)	(183,646)	268,485
Other changes in net assets									
Change in net unrealized appreciation on marketable investments	-	344	(24)	-	-	-	1,865	56,360	58,545
Change in fair value of hedging interest rate swaps	-	-	-	-	-	-	(45,820)	-	(45,820)
Funds utilized for property and equipment	13,053	57,638	1,840	2,878	11	-	-	-	75,420
Transfers from (to) affiliates	(62,262)	(88,389)	7,448	(13,458)	82,211	-	74,450	-	-
Net assets acquired through merger	-	193,818	-	-	-	-	-	-	193,818
Other	3,189	1,516	-	-	707	-	-	-	5,412
Change in funded status of defined benefit plans	46,481	(60,596)	(871)	(55)	34	-	4,547	-	(10,460)
Increase (decrease) in unrestricted net assets	$ 154,515	$ 410,599	$ (9,879)	$ 17,473	$ 71,181	$ 2,536	$ 26,261	$ (127,286)	$ 545,400

Partners HealthCare System, Inc. and Affiliates
Consolidating Statement of Operations
Year Ended September 30, 2009

(dollars in thousands)	BW/F and Affiliates	MGH and Affiliates	NSMC and Affiliates	NWHCS and Affiliates	PCC and Affiliates	PCHI	PHS	Eliminations	Consolidated
Operating revenue									
Net patient service revenue	$ 2,106,995	$ 2,559,378	$ 494,725	$ 358,516	$ 269,557	$ 51,077	$ -	$ (16,507)	$ 5,823,741
Direct academic and research revenue	391,669	565,718	883	1,636	3,260	-	4,469	-	967,635
Indirect academic and research revenue	113,052	172,067	13	169	928	-	617	-	286,846
Other revenue	105,087	218,550	18,697	12,642	3,951	150,352	609,218	(581,859)	536,638
Total operating revenue	2,716,803	3,515,713	514,318	372,963	277,696	201,429	614,304	(598,366)	7,614,860
Operating expenses									
Employee compensation and benefits	1,266,544	1,698,676	303,617	213,593	194,669	106,294	340,038	5,589	4,129,020
Supplies and other expenses	745,145	892,714	171,673	111,334	70,247	86,828	154,354	(404,738)	1,827,557
Direct academic and research expenses	391,669	565,718	883	1,636	3,260	-	4,469	-	967,635
Depreciation and amortization	113,029	134,531	18,232	20,521	6,446	5,186	30,541	-	328,486
Provision for bad debts	47,708	46,862	11,573	6,615	3,280	1,376	3,637	-	121,051
Interest	27,738	25,745	7,447	5,126	2,719	208	74,122	(66,443)	76,662
Total operating expenses	2,591,833	3,364,246	513,425	358,825	280,621	199,892	607,161	(465,592)	7,450,411
Income (loss) from operations	124,970	151,467	893	14,138	(2,925)	1,537	7,143	(132,774)	164,449
Nonoperating gains (expenses)									
Income (loss) from investments	21,165	41,509	2,040	1,554	753	657	16,921	(109,877)	(25,278)
Change in fair value of nonhedging interest rate swaps	-	-	-	-	-	-	(38,955)	-	(38,955)
Gifts and other, net of expenses	(8,784)	(17,533)	(849)	(1,444)	(3,195)	-	(956)	(3,468)	(36,229)
Academic and research gifts, net of expenses	(2,312)	(19,401)	1,111	4,741	1,268	-	(12,006)	8,237	(18,362)
System development funding	(42,744)	(55,183)	(10,494)	(8,175)	(5,672)	-	(14,000)	136,268	-
Total nonoperating gains (expenses), net	(32,675)	(50,608)	(8,192)	(3,324)	(6,846)	657	(48,996)	31,160	(118,824)
Excess (deficit) of revenues over expenses	92,295	100,859	(7,299)	10,814	(9,771)	2,194	(41,853)	(101,614)	45,625
Other changes in net assets									
Change in net unrealized appreciation on marketable investments	(48)	(38)	339	-	-	-	(1,045)	93,824	93,032
Change in fair value of hedging interest rate swaps	-	-	-	-	-	-	(46,026)	-	(46,026)
Funds utilized for property and equipment	12,060	9,588	6,311	7,671	286	-	3,939	-	39,855
Transfers from (to) affiliates	459	3,506	(5,459)	(336)	47,898	-	(54,749)	8,681	-
Other	54	2,194	(621)	-	(9)	-	-	-	1,618
Change in funded status of defined benefit plans	(283,993)	(472,301)	(19,845)	(189)	(111)	-	(2,298)	-	(778,737)
Cumulative effect of change in defined benefit plans measurement date	(28,840)	(42,117)	(2,072)	(106)	(836)	-	920	-	(73,051)
Increase (decrease) in unrestricted net assets	$ (208,013)	$ (398,309)	$ (28,646)	$ 17,854	$ 37,457	$ 2,194	$ (141,112)	$ 891	$ (717,684)

Partners HealthCare System, Inc. and Affiliates
Consolidating Statements of Changes in Net Assets
Year Ended September 30, 2010

(dollars in thousands)	BW/F and Affiliates	MGH and Affiliates	NSMC and Affiliates	NWHCS and Affiliates	PCC and Affiliates	PCHI	PHS	Eliminations	Consolidated
Unrestricted									
Net assets at September 30, 2009	$ 1,151,581	$ 2,650,369	$ (7,236)	$ 247,939	$ 60,056	$ 33,488	$ (72,984)	$ (217,422)	$ 3,845,791
Increases (decreases)									
Income (loss) from operations	125,671	191,307	(12,580)	19,195	(6,314)	2,411	16,447	(141,457)	194,680
Income (loss) from investments	62,130	171,623	4,617	15,866	2,001	125	35,996	(182,417)	109,941
Gifts and other, net of expenses	(12,782)	(14,479)	(511)	(1,252)	(2,582)	-	(2,998)	(3,381)	(37,985)
Academic and research gifts, net of expenses	25,696	16,627	743	3,196	939	-	(3,536)	(1,126)	42,539
System development funding	(46,661)	(58,810)	(10,541)	(8,897)	(5,826)	-	(14,000)	144,735	-
Change in net unrealized appreciation on marketable investments	-	344	(24)	-	-		1,865	56,360	58,545
Change in fair value of interest rate swaps									-
Nonhedging	-	-	-	-	-	-	(40,690)	-	(40,690)
Hedging	-	-	-	-	-	-	(45,820)	-	(45,820)
Funds utilized for property and equipment	13,053	57,638	1,840	2,878	11	-	-	-	75,420
Net assets acquired through merger	-	193,818	-	-	-	-	-	-	193,818
Other	3,189	1,516	-	-	707	-	-	-	5,412
Change in funded status of defined benefit plans	46,481	(60,596)	(871)	(55)	34	-	4,547	-	(10,460)
Transfers from (to) affiliates	(62,262)	(88,389)	7,448	(13,458)	82,211	-	74,450	-	-
Change in unrestricted net assets	154,515	410,599	(9,879)	17,473	71,181	2,536	26,261	(127,286)	545,400
Net assets at September 30, 2010	$ 1,306,096	$ 3,060,968	$ (17,115)	$ 265,412	$ 131,237	$ 36,024	$ (46,723)	$ (344,708)	$ 4,391,191
Temporarily restricted									
Net assets at September 30, 2009	$ 148,847	$ 676,312	$ 21,444	$ 33,883	$ 9,476	$ -	$ 294	$ (60,328)	$ 829,928
Increases (decreases)									
Income (loss) from investments	6,691	31,388	1,400	2,605	443	-	-	(37,727)	4,800
Gifts and other	(6,706)	30,321	57	(1,721)	1,909	-	(208)	-	23,652
Change in net unrealized appreciation on marketable investments	-	1,953	-	-	-	-	-	4,419	6,372
Funds utilized for property and equipment	-	(38,653)	(195)	-	-	-	-	-	(38,848)
Other	274	(1,174)	-	-	(578)	-	-	-	(1,478)
Change in temporarily restricted net assets	259	23,835	1,262	884	1,774	-	(208)	(33,308)	(5,502)
Net assets at September 30, 2010	$ 149,106	$ 700,147	$ 22,706	$ 34,767	$ 11,250	$ -	$ 86	$ (93,636)	$ 824,426
Permanently restricted									
Net assets at September 30, 2009	$ 48,441	$ 222,852	$ 15,816	$ 9,486	$ 1,149	$ -	$ 1,150	$ -	$ 298,894
Increases (decreases)									
Income (loss) from investments	-	348	(69)	-	-	-	-	-	279
Gifts and other	7,279	7,041	52	525	6	-	-	-	14,903
Change in net unrealized appreciation on marketable investments	-	185	179	-	-	-	-	-	364
Other	(2,813)	(736)	-	-	-	-	-	-	(3,549)
Change in permanently restricted net assets	4,466	6,838	162	525	6	-	-	-	11,997
Net assets at September 30, 2010	$ 52,907	$ 229,690	$ 15,978	$ 10,011	$ 1,155	$ -	$ 1,150	$ -	$ 310,891

Partners HealthCare System, Inc. and Affiliates
Consolidating Statements of Changes in Net Assets
Year Ended September 30, 2009

(dollars in thousands)	BW/F and Affiliates	MGH and Affiliates	NSMC and Affiliates	NWHCS and Affiliates	PCC and Affiliates	PCHI	PHS	Eliminations	Consolidated
Unrestricted									
Net assets at September 30, 2008	$ 1,359,594	$ 3,048,678	$ 21,410	$ 230,085	$ 22,599	$ 31,294	$ 68,128	$ (218,313)	$ 4,563,475
Increases (decreases)									
Income (loss) from operations	124,970	151,467	893	14,138	(2,925)	1,537	7,143	(132,774)	164,449
Income (loss) from investments	21,165	41,509	2,040	1,554	753	657	16,921	(109,877)	(25,278)
Gifts and other, net of expenses	(8,784)	(17,533)	(849)	(1,444)	(3,195)	-	(956)	(3,468)	(36,229)
Academic and research gifts, net of expenses	(2,312)	(19,401)	1,111	4,741	1,268	-	(12,006)	8,237	(18,362)
System development funding	(42,744)	(55,183)	(10,494)	(8,175)	(5,672)	-	(14,000)	136,268	-
Change in net unrealized appreciation on marketable investments	(48)	(38)	339	-	-	-	(1,045)	93,824	93,032
Change in fair value of interest rate swaps									
Nonhedging	-	-	-	-	-	-	(38,955)	-	(38,955)
Hedging	-	-	-	-	-	-	(46,026)	-	(46,026)
Funds utilized for property and equipment	12,060	9,588	6,311	7,671	286	-	3,939	-	39,855
Other	54	2,194	(621)	-	(9)	-	-	-	1,618
Change in funded status of defined benefit plans	(283,993)	(472,301)	(19,845)	(189)	(111)	-	(2,298)	-	(778,737)
Cumulative effect of change in defined benefit plans measurement date	(28,840)	(42,117)	(2,072)	(106)	(836)	-	920	-	(73,051)
Transfers from (to) affiliates	459	3,506	(5,459)	(336)	47,898	-	(54,749)	8,681	-
Change in unrestricted net assets	(208,013)	(398,309)	(28,646)	17,854	37,457	2,194	(141,112)	891	(717,684)
Net assets at September 30, 2009	$ 1,151,581	$ 2,650,369	$ (7,236)	$ 247,939	$ 60,056	$ 33,488	$ (72,984)	$ (217,422)	$ 3,845,791
Temporarily restricted									
Net assets at September 30, 2008	$ 178,099	$ 667,062	$ 24,950	$ 41,372	$ 8,981	$ -	$ 740	$ (59,294)	$ 861,910
Increases (decreases)									
Income (loss) from investments	(4,174)	(19,394)	(657)	(1,371)	171	-	127	(23,875)	(49,173)
Gifts and other	(32,363)	31,111	1,289	(6,118)	816	-	(341)	-	(5,606)
Change in net unrealized appreciation on marketable investments	-	362	-	-	-	-	-	22,841	23,203
Funds utilized for property and equipment	-	(196)	(4,907)	-	(492)	-	-	-	(5,595)
Other	7,285	(2,633)	769	-	-	-	(232)	-	5,189
Change in temporarily restricted net assets	(29,252)	9,250	(3,506)	(7,489)	495	-	(446)	(1,034)	(31,982)
Net assets at September 30, 2009	$ 148,847	$ 676,312	$ 21,444	$ 33,883	$ 9,476	$ -	$ 294	$ (60,328)	$ 829,928
Permanently restricted									
Net assets at September 30, 2008	$ 51,400	$ 220,744	$ 17,995	$ 9,347	$ 1,144	$ -	$ 1,150	$ -	$ 301,780
Increases (decreases)									
Income (loss) from investments	7	(1,000)	(87)	-	-	-	-	-	(1,080)
Gifts and other	4,374	3,681	85	139	5	-	-	-	8,284
Change in net unrealized appreciation on marketable investments	-	(99)	(1,407)	-	-	-	-	-	(1,506)
Other	(7,340)	(474)	(770)	-	-	-	-	-	(8,584)
Change in permanently restricted net assets	(2,959)	2,108	(2,179)	139	5	-	-	-	(2,886)
Net assets at September 30, 2009	$ 48,441	$ 222,852	$ 15,816	$ 9,486	$ 1,149	$ -	$ 1,150	$ -	$ 298,894