Each year, I report to the Beth Israel Deaconess Medical Center Board of Directors on our progress toward operational goals. I was pleased to be able to deliver very positive news in my most recent report. Shared below with the BIDMC community is summary and in-depth information on how we performed based on our FY'04 clinical operating goals.

Michael F. Epstein, M.D.
Executive Vice President and
Chief Operating Officer

November 5, 2004

Dear Colleague:

I am pleased to provide you with this summary of our performance in carrying out the Annual Operating Plan for Fiscal Year 2004.

While the concept of a "routine year" has not existed in health care for some time, FY04 may have created a new record for change and challenges. We began the year in October, 2003 with a budget crafted to achieve our first-ever break-even bottom line as the third and final year of the Recovery Plan. However, by December, that budget had to undergo major construction in real time to support the first year of the Strategic Plan that had been adopted by the medical, administrative, and governing Board leadership. The ink had not yet dried on that document when record low temperatures led to burst pipes and an electrical outage on our entire West Campus in January, 2004. As in the case of the computer network failure in November, 2002, a potentially devastating situation provided us with an opportunity to use ingenuity, hard work, and collaboration to manage the crisis and emerge a stronger institution.

Despite these challenges, FY04 was a successful year in every aspect of our Plan. Quality benchmarks continued to meet or exceed most of our benchmarks and 75% of these measures showed improvement over FY03. While achieving the highest volumes since the merger for inpatient and ambulatory volumes, we managed to simultaneously achieve the highest levels of patient satisfaction since beginning these surveys, and we regularly achieved the highest 10% rating in multiple categories when compared to our teaching hospital peers nationally. Finally, we finished the third year of the Recovery Plan, not with our target of breakeven, but with a consolidated operating gain of $35.9 million and a stronger balance sheet.

The details of these results are provided in the attached reports, and I urge you to read them, both to take pride in your accomplishments as well as to better understand how the complex pieces of this institution fit together. The report this year focuses largely on the clinical operations, but it is important to remember that our Strategic Plan melds specific plans for clinical care, research, and education into one document. In the future, our Annual Operating Plan will do so as well since the success of the organization depends on the successful interplay and integration between these key mission elements.

Finally, I would be remiss if I did not express my deep appreciation to each of you for the work that you have done to enable the Medical Center to successfully complete our Recovery Plan. Over the last three years, we have substantially increased our patient care activity in both the inpatient and ambulatory settings, achieved outstanding quality and patient satisfaction measures, and showed a nearly $100 million improvement in our annual bottom line. Those results would not have been possible without an extraordinary effort from our employees, managers, and physicians working together in a focused, collaborative, and energetic manner.

It has been rewarding to witness and makes me confident that we can continue to achieve wonderful outcomes for our patients and their families, our students and residents, our research grantors, and our community supporters and donors.

Thank you for all that you have done.

Sincerely yours,

Michael F. Epstein, MD
Executive Vice President and Chief Operating Officer

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FY'04 Clinical Operating Goals

Goal 1. Quality and Safety in Patient Care: Provide superior quality and safe patient care, and measure our performance in a standardized, transparent, and periodic fashion to ensure achieving this goal.

> **Objective 1**: Promote patient care safety by advancing a culture of safety and implementing specific institutional initiatives.

Executive Walk Rounds on inpatient units, OR, PACU, and ED were conducted monthly by the COO, VP's, and Health Care Quality staff. Team training continued in Labor & Delivery and was extended to the Perioperative Areas and the Emergency Department. Best practice standards were established in a number of areas (e.g. Ambulatory medication administration) to ensure a single high standard of care throughout our many sites of care. The Patient Care Assessment Committee of the Board increased its frequency of meetings to bimonthly from quarterly and attendance by the Department Chiefs was emphasized. Each Department prepared a Patient Safety/Health Care Quality report for PCAC.

> **Objective 2:** Set institutional measures of clinical quality and report periodically to BIDMC physicians and leadership

The Quality Dashboard was refined to include measures that are reported to external agencies such as the JCAHO and results were reported to PCAC bimonthly and to Leadership Meeting monthly. Reports to the Board of Directors increased from annual to semiannual.

> **Objective 3**: Ensure JCAHO preparedness in order to equal or improve upon 2001 score

Preparations for the November 15-19th site visit continued to result in improved compliance with the JCAHO National Patient Safety Goals and our own standards for safe care.

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Goal 2. Delivery of Patient Care: Improve our patient care processes to achieve highly efficient and effective access, intake, and throughput for our patients by optimally matching staff, equipment, and supplies with volume and site of care.

> **Objective 1:** Develop and manage the flow of staff and equipment to actual and projected volume in order to `match' resources with demand

Continued innovative initiatives in HR and PCS supported the hiring of over 300 nurses and reduced the vacancy rate to <5%. Continuing efforts by the joint Operations/PCS team resulted in improved room turnover times, transport times, and equipment availability. ED Diversion hours and transfer request outcomes continued to reflect improved ability to accommodate the growing volume of patients, and the 24x7 availability of the Clinical Decision Unit in the ED enabled the triage of patients needing in-hospital care to optimize the utilization of inpatient beds. Improved coordination of referrals from our Primary Care Doctors and ED triage to BID-Needham also supported these efforts. The opening of additional patient care units on Farr 6 and Farr 10 allowed us to add 14 medical/surgical beds and 9 critical care beds and enhanced our ability to manage increased volume as well.

> **Objective 2:** Simplify and streamline inpatient throughput to optimize patient care experience as well as reduce staff stress in key parts of the system

A number of initiatives including a short stay unit, a designated attending on medical services, use of mobile computers by house officers for order writing on rounds, scheduled discharges, and improved triage from the ED and the admitting office combined to improve throughput.

Objective 3: Evaluate and re-organize care delivery and clarify decision-making processes to allowing for optimization of capacity

PCS and the ED collaborated to establish work processes to enable the Admission Facilitator to be the decision maker during the high traffic periods when inpatient occupancy approached or exceeded 100% and patients were awaiting placement in the ED or transfer decisions needed to be made. Improved communication between inpatient units and the ED enhanced the process and enabled a record number of inpatient discharges to be cared for while also providing care to 65% more observation patients. The Volume/Ops Committee of key physicians and managers reviewed and approved these new policies and processes.

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Goal 3. Patient Care Volume: Increase our ambulatory and inpatient volume in a realistic, strategic, and focused fashion based on tightly integrated planning and execution in partnership with our medical leadership.

Objective 1: Refine the business planning process to develop and implement business plans for key clinical programs in the context of the strategic plan and invest in their growth, integrating medical staff and administrative personnel and processes.

The approval of the Transplantation Program business plan supported growth in patient volume, physician recruitment, and growth of the research program. This model was expanded to include planning efforts for orthopaedic surgery, airway disease, breast cancer, prostate cancer, and several other programs. Designation by DPH of our Stroke Program as an Approved Center represented a successful planning and implementation of this multidisciplinary effort.

Objective 2: Establish and enforce access standards for ambulatory referrals including telephone access and appointment availability.

Podular scheduling was expanded to additional programs enhancing a patient's ability to schedule an appointment with a BIDMC physician. A focused program to improve HCA's ability to answer phones and meet patients' needs demonstrated that reorganizing the work to have a focus on service and performance can yield startling results. A major institution-wide program from service improvement was launched by HR and Ambulatory Services.

Objective 3: Develop a marketing, communication, and network development plan that informs the physician and patient community about our key programmatic growth initiatives

A new 370 page Physician Referral Guide was distributed to more than 20,000area physicians and mailings for our transplantation program, hematologic-malignancy program, endocrine surgery program, and our Joslin/BIDMC joint venture were sent. An advertising campaign featuring radio, newspaper ads, and billboards increased our visibility among our target audiences. The Web site was modernized and upgraded, and our Find-a-Doc and Doctor-to-Doctor lines continued to experience increased traffic for referrals. A detailed Network Development plan was developed to focus efforts on specific community hospitals and physician groups.

Objective 4: Evaluate and pursue appropriate network development opportunities with key institutional and physician groups to grow and solidify BIDMC's market share in key tertiary clinical areas

Important programs continued to develop with Milton, Nashoba Valley, and MetroWest Hospitals and new initiatives were launched with Beverly Hospital as well as the multi-specialty group, BGPMA.

Objective 5: Implement and monitor all aspects of our clinical relationships with our affiliates including but not limited to BIDH-Needham, Joslin Clinic, Milton Hospital and Nashoba Valley Medical Center

A new level of coordination on physician referral, ED triage, and inpatient bed use was achieved with BID-Needham enhancing their inpatient volume and enabling us to better utilize our beds. The Joslin/BIDMC joint venture completed its first year with new clinical practice guidelines in place and expansion of the eye and cardiology programs. Screening of HCA patients with the Joslin Visiion Network was launched.

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Goal 4. Financial Performance: Achieve breakeven operating bottom line through a well-grounded budget process and tight execution of revenue generation and expense management.

Objective 1: Identify and actively pursue revenue cycle initiatives to reduce denials and underpayments and improve third party contract performance

Denials continued to be below 1% of revenue, and intensive documentation and negotiation with several third party payors allowed favorable resolution of prior and current-year payment disputes. Work continued on the implementation of a new Patient Services Revenue software application to modernize our revenue cycle work.

Objective 2. Identify new revenue opportunities and negotiate favorable third party contracts

Continued improvement in collecting co-pays and improving our billing methodology for ambulatory activities resulted in the collection of significant new revenue. The split billing model for ambulatory visits was expanded to include neurology and orthopedics, and billing for credentialed nurse practitioners was launched successfully.

Objective 3: Successfully implement 3 work re-design projects to reduce labor and supply costs

Among a myriad of work redesign projects, several outstanding examples are as follows: the continued expansion of escription to replace traditional transcription reduced turnaround time and saved over $700,000; relocating the HCA phone bank and introducing clear performance criteria reduced call answering time by 80%; coordination of medication documentation in heme/onc with patient billing allowed recovery of nearly $2 million in medication revenue; restructuring of physician compensation model in HCA supported volume growth and aligned incentives for physicians and Medical Center.

Objective 4: Aggressively identify and implement initiatives to achieve FY04 supply chain goals

Despite major increases in the costs of medical supplies, the average cost per adjusted case remained within the budgeted target of <4% increase. Improvements in the organization of purchasing/accounts payable, the Clinical Resource Utilization management partnership between physicians and management, and continued relentless pursuit of opportunities to standardize, group purchase, and eliminate waste resulted in major cost restraint.

Objective 5: Develop the clinical resource utilization management process to quickly identify, achieve and demonstrate permanent reduction in overall cost/ case or procedure

While the Committee recommended approval of several new technologies and procedures, two other proposals for new medical interventions were not approved. As a result, these two procedures are not offered at the Medical Center, resulting in significant cost avoidance while maintaining our ability to provide current and effective care.

Objective 6: Accomplish facility projects designed to use space more efficiently including completion of the decanting of Kennedy building, increasing productive use of ambulatory space and accommodating expansion of our BMT program

The KBS (Kennedy Building decant, bone marrow transplant, and surgical ambulatory space) project was successfully completed. This remarkable achievement which relocated hundreds of employees and physicians was carried out on time and on budget through the leadership of Facilities and with the cooperation of the entire institution.

In order to effectively execute the above FY04 goals, we have added two key goals that are critical to our on-going success

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Goal 5. Customer Service and Employee Satisfaction: Achieve a sustainable high level of service quality for our patients and their families, our referring physicians, and our own medical staff and employees through recruiting, retaining and developing an outstanding, diverse workforce.

Objective 1: Achieve a high level of "customer" satisfaction for patients and their families as well as in our relationship with our broader urban community

Our inpatient survey results achieved the highest level of patient satisfaction since we began to conduct these surveys several years ago. The instrument we use is administered by a national company who has comparable results from other teaching hospitals across the country allowing us to compare our results to our peers. BIDMC ranked in the top 10% for the following categories: overall teamwork between doctors, nurses, and staff; overall quality of doctor's care; overall quality of nurses' care; overall quality of care; overall safety of the hospital. Satisfaction among patients in ambulatory surgery also rated in the top 10% in relation to the national comparison group.

Objective 2: Expand service quality training initiative to support achievement of customer satisfaction goals

The experience gained in improving service quality in HCA is being expanded institution-wide through the efforts of Human Resources working with ambulatory and patient care services leadership.

Objective 3: Recruit, develop and retain exceptional talent with a focus on diversifying our workforce

The BIDMC continued to recruit and retain outstanding individuals. In addition, individuals from underrepresented minority groups accounted for more than 10% of vacant managerial positions filled during FY04.

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Goal 6. Medical Staff/Management Partnership: Establish mechanisms to create and support a culture where the leadership of the medical staff and administration jointly plan, achieve and are held accountable for the Annual Operating Goals

Objective 1 Successfully recruit and integrate new Department Chiefs in Orthopedic Surgery and Pathology

Dr. Mark Gebhardt began his tenure as the Chief of Orthopedic Surgery early in FY04 and has done a remarkable job of beginning to rebuild this department. He has recruited four new staff surgeons and successfully reestablished the presence of the Harvard Combined Orthopedic Residency Program at BIDMC. He has also initiated the re-opening of the Biomechanics Lab as the basic science component of the Department. The search committee for Pathology continues its work, and we are fortunate that Dr. Harold Dvorak has agreed to continue in his role as Chief until that work is completed.

Objective 2 Implement, monitor, and refine a new BIDMC/HMFP financial model for MD administrative duties, purchased services and strategic investments

The first year of implementation of the BIDMC/HMFP funds flow using the agreed upon standards for teaching, administrative work, and purchased services was quite successful, in large part due to the arrival and leadership of HMFP's new CEO, Dr. Stuart Rosenberg. The shared expectations and clear goals of this effort were important contributors to building the partnership.

Objective 3 Jointly develop, implement and monitor clinical care guidelines for key clinical areas to reduce variation, improve quality of care, and improve efficiency

With the leadership of Health Care Quality, the dozens of clinical practice guidelines on our Web site were reviewed, edited, and either approved or eliminated so the current listing of guidelines is current and valid. New guidelines were created by the medical staff for the Whipple procedure to treat pancreatic cancer, for glucose management in cardiac surgical patients, for telemetry use, for central line insertion, and for stroke management among others. The use of a standardized methodology and posting on the Web have improved the utilization of these guidelines.

Objective 4 Implement joint communication and partnering forums in order to actively engage Chief's, Division Chiefs and all clinicians in BIDMC's operations and planning

Through attending departmental meetings twice a year, I was able to present the annual operating plan and our performance on these six goals to more than 400 members of the medical staff twice during the year. This contributed to a heightened awareness of and a greater degree of cooperation around achieving our joint goals and further strengthened the partnership.

Objective 5 Develop joint marketing and physician outreach training program and plans for `new physicians' to learn the art of relationship building, where administration provides market research and clinicians build relationships

A Physician Orientation program was developed and made available to all BIDMC physicians on the Web. Early results indicate wide use and high approval ratings for this new vehicle to orient doctors to our systems, computerized medical record, etc.

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Goal #1: Quality and Safety in Patient Care: Provide superior quality and safe patient care, and measure our performance in a standardized, transparent, and periodic fashion to ensure achieving this goal.

Summary of Results:

FY04 was a year of reinvigorated collaboration between management, medical staff , and lay leadership in support of health care quality and patient safety. Highlighted in the Strategic Plan as a top priority for the institution, patient safety was the focus of monthly Executive Walk Rounds on patient care units. These sessions provided senior leadership with the opportunity to hear the issues that staff felt were affecting patient care and to then address those issues. (Figure 1) Each individual department prepared a formal quality report, and four departments presented their programs to the Patient Care Assessment Committee (PCAC). In addition, the quality dashboard was updated to include a number of measures that were established as benchmarks by external regulatory bodies such as the JCAHO and Medicare. (Figure 2) We continued to show improvement in these measures with 73% of our quality measures improving over the prior year's performance. In order to increase the opportunities for these important conversations about patient safety and quality, the Medical Executive Committee increased the frequency of its meetings from monthly to biweekly and devoted two entire meetings to discussions of quality. Moreover, the PCAC increased its meeting frequency to bimonthly from quarterly and increased its frequency of reporting to the Board of Directors from annually to semi-annually.

A second major initiative supported by the Strategic Plan was the adoption of team training as a major mechanism to improve patient safety. First developed in our Labor and Delivery area as part of a national demonstration project, the gains from teams working together in this new manner are demonstrable. Team training was expanded to include the perioperative areas and the Emergency Department.

Another key initiative was the effort to standardize and update our clinical practice guidelines. Nearly a hundred pathways, maps, guidelines, and other material had accumulated on our web site over the years. Under the leadership of Health Care Quality, each of these was reviewed and either eliminated or updated, catalogued, and made accessible on the Web Site. In addition, new clinical guidelines were developed by working groups of physicians, nurses, and health care quality personnel for patients undergoing Whipple procedures, for glucose control during and after cardiac surgery, for stroke patients, for central venous line insertions, and others. Each of these guidelines will standardize care, reduce variability, and make care more efficient and cost effective, as seen in the improvement in morbidity and mortality achieved with normalization of blood glucose in cardiac surgical patients.

Finally, with the JCAHO accreditation survey scheduled for November, 2004, major efforts were devoted to compliance with JCAHO standards and improvements in the seven National Patient Safety Goals. (Figure 3) Initiatives around "time outs", "write down, read back", "wrong site, wrong side", and around patient identification, legibility in medical records, and telemetry and IV pumps were all carried out with significant improvement in our performance levels. All institutional policies were reviewed and updated by the Operations Council and the MEC.

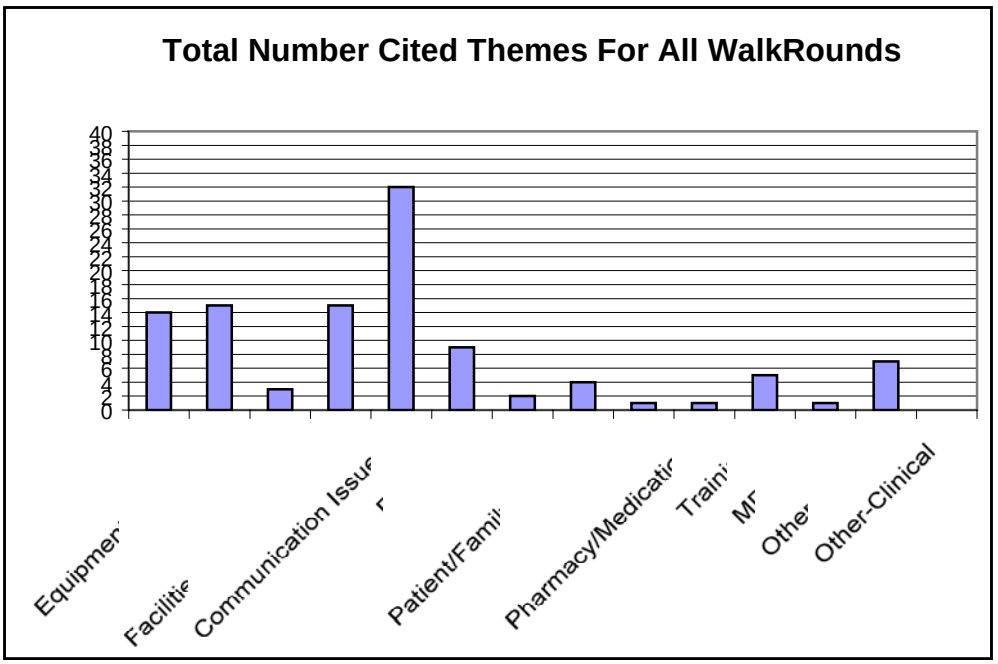
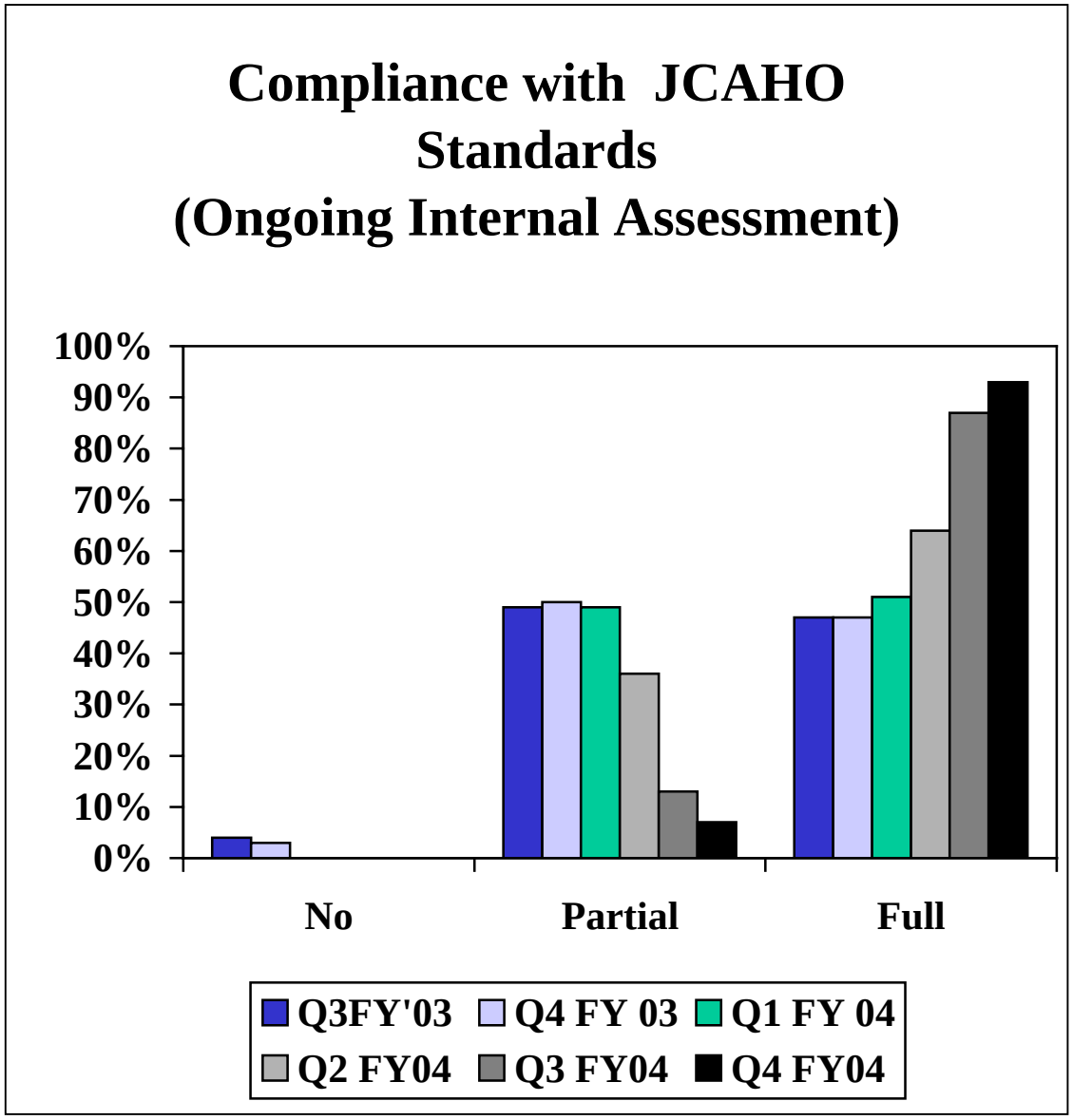


Figure 2: The updated Dashboard of Performance Measures.

MEASURE	External Comparison	Internal FY02	Internal FY03	FY 2004 Quarterly Rates 1st	2nd	3rd	4th	FY 03 to FY 04 Comparison
Surgical Inpatients: ASA Class 4 - Any Mortality within 2 Days of Surgery	1.4%	2.3%	2.0%	2.8%	2.7%	1.8%		Unfavorable
Coronary Artery Bypass Graft Patients - Mortality Rate	2.1%	1.1%	1.5%	1.1%		"		Favorable
Neonatal Mortality: Actual vs. Predicted	1.0	0.7	1.1	0.8	--	--		Favorable
Unplanned Return to the OR	1.5%			1.5%	1.9%	1.8%		Unfavorable
Heart Failure (CMS/JCAHO Core): ACEI Prescribing Rate for HF Patients w/ Documented EF <= 40%	76%		84%	84%	88%	86%		Favorable
AMI (JCAHO Core): Door to Ballon Time (Avg Minutes)	315				138	108		Favorable
AMI (JCAHO Core): Mortality	10.3%				3.0%	7.8%		Favorable
Community Acquired Pneumonia (CMS/JCAHO Core):Antibiotic Administration Within 4 Hours of Arrival	71%				66%	88%		Favorable
Hospital - Acquired Decubitus Ulcers	2.2%		2.1%	2.2%	2.2%	2.2%		Neutral
Hospital - Acquired Bloodstream Infection Rate (per 1000 Patient Days)	2.2	2.2	2.2	2.1	2.7	3.0		Unfavorable
Psychiatry Inpatients: Restraint and Seclusion Rate		5.1%	6.1%	4.8%	2.5%	6.9%		Favorable
Delays: Total		5.4%	4.3%	4.4%	4.3%	4.1%		
Clinical		2.2%	2.3%	1.7%	1.8%	1.9%		Favorable
Discharge		3.2%	2.6%	2.7%	2.5%	2.2%		Favorable
Registered Patient Time in the ED > 6 Hours		31.8%	35.6%	37.8%	39.2%	34.8%		Neutral
Patient Satisfaction: Likelihood to Recommend (% Excellent)	51%	64%	65%	66%	69%	68%		Favorable
Patient Satisfaction: Likelihood to Recommend (% Excellent)	61%	N/A	71%	75%	75%	77%		Favorable



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Goal #2: Delivery of Patient Care: Improve our patient care processes to achieve highly efficient and effective access, intake, and throughput for our patients, optimally matching staff, equipment, and supplies with volume and site of care.

Summary of Results:

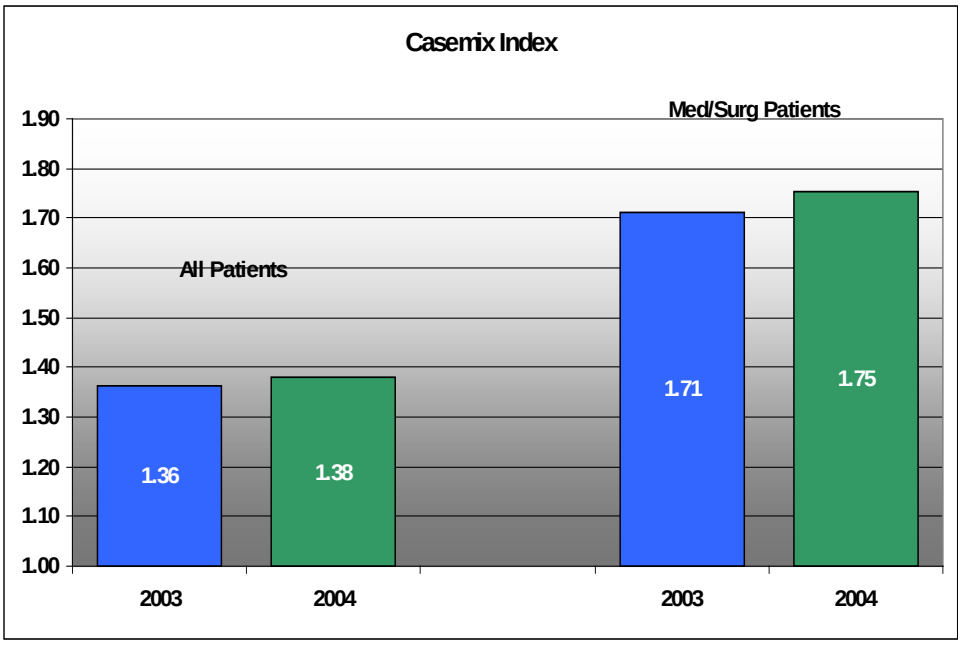
The challenge of FY04 was how to accommodate increased numbers of inpatients with increased case mix acuity in a facility with a fixed number of beds and a projected occupancy in excess of 85%.

We took three primary approaches to improve the match between demand and capacity. First, we added new patient care units in Farr and West Clinical Center resulting in an additional 14 medical/surgical beds and nine critical care beds. Second, we implemented innovative methods as well as additional dollars to address the continuing nursing shortage in the intense competitive environment in Boston. Third, we focused on throughput process improvements especially around the "traffic control" issues during the peak census during the day, (when many discharged patients have not yet left and the new admissions are already here) as well as at night (when staffing flexibility is at a minimum and ED and transfer demands are at their maximum).

Two of the Strategic Plan teams focused their efforts on innovative methods of improving throughput while improving our case mix. One team addressed the issue of prioritizing high acuity services by developing new guidelines on bed assignment and utilization. Efforts to triage low acuity patients to BID-Needham or to accommodate them as observation patients in the Clinical Decision Unit were expanded. In addition, a new policy led to holding dedicated beds open for cardiology, cardiac surgery, trauma, and transplant patients. Finally, the role of the Admission Facilitator was clarified and strengthened to enable her/him to be the final arbiter (with support from the ED attending) of disagreements about bed assignment and moving patients.

Another set of initiatives worked to better balance our campuses by moving selected surgical services (e.g. plastic surgery) from west to east in order to free up OR's and beds on west and better utilize the east capacity. Using PACU beds and adding capacity to the Finard ICU also helped with this creation of enhanced capacity.

Finally, a set of coordinated initiatives to smooth the flow of patients from admission to discharge were implemented. These included scheduling discharges, using mobile computers on rounds to enhance timely order writing, and utilization of guidelines for chest pain, stroke, and other common conditions. The result was an increase in our ability to accept high acuity transfers from other hospitals, a decrease in delays of patients transferred from the ICU to the floors, and improved identification of discharges earlier in the day. These improvements enabled us to care for a 2% growth in our discharges and a 2% increase in our medical/surgical case mix while operating at an average occupancy of 88% for med/surg units and 96% for our critical care units. (Figures 1-3).


Casemix Index
Med/Surg Patients
All Patients
1.90
1.80
1.70
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1.00
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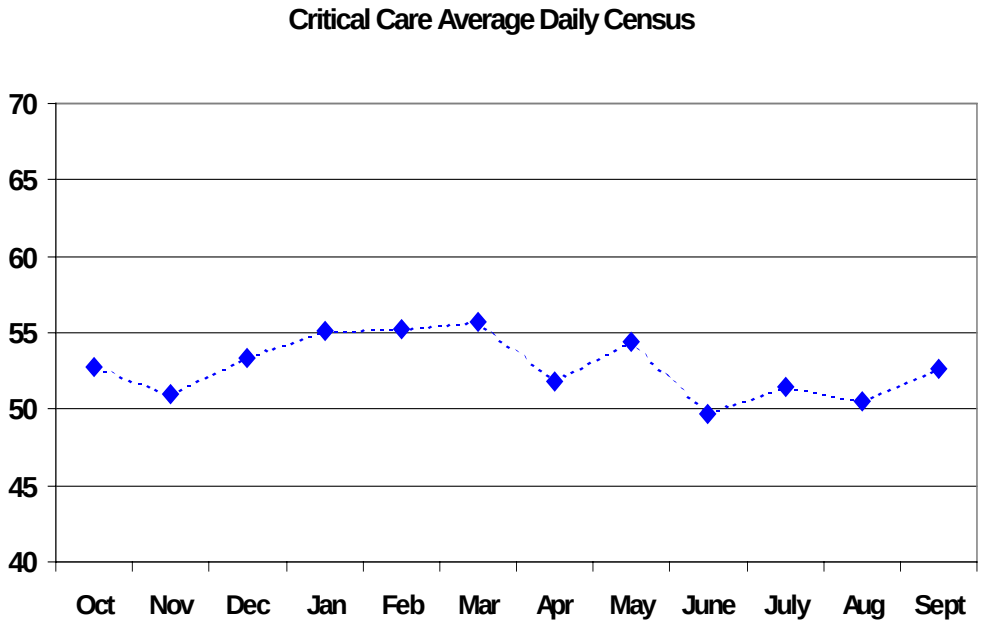
Critical Care Average Daily Census
70
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60
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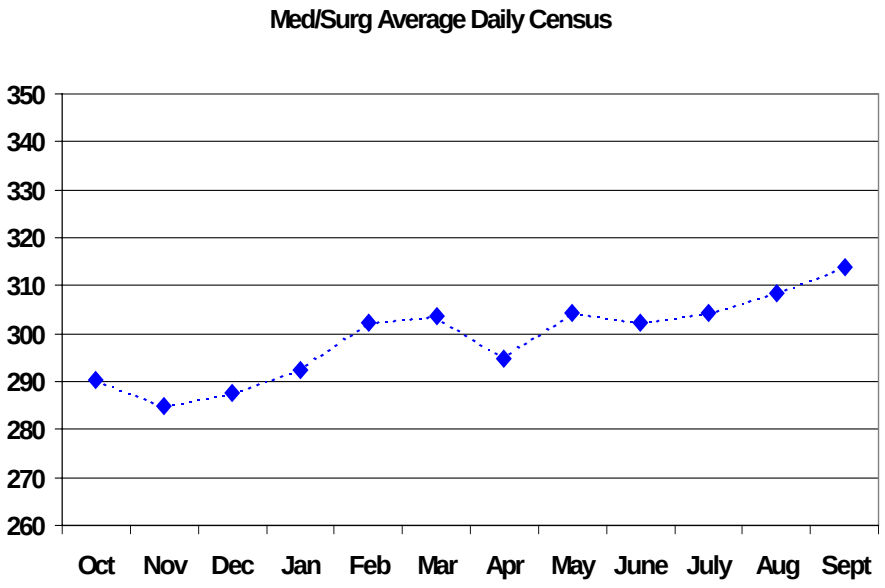

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***Goal #3: Patient Care Volume*:** Increase our ambulatory and inpatient volume in a realistic, strategic, and focused fashion based on tightly integrated planning and execution in partnership with medical leadership.

Summary of Results:

FY04 was a unique year in which we moved from a simple target of inpatient discharge volume to a more strategic and more complex goal of "targeted growth". The Strategic Plan made it clear that in order to meet our goals for financial stability, we need to increase our volume of inpatient care while simultaneously increasing our case mix. This involved targeting our growth to higher acuity and complexity patients and required new methods of managing our access and beds. Some of these methods were described under Goal 3.

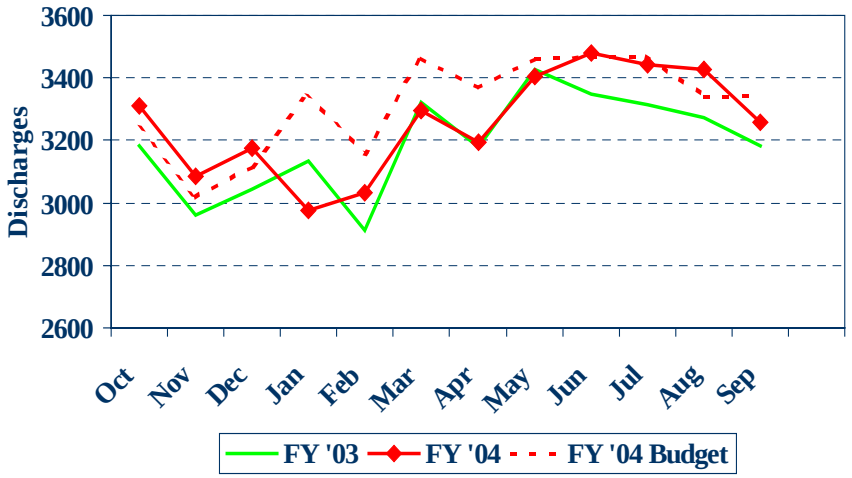
The outcome was a 2% growth in our inpatient discharges over FY03 with a marked heterogeneity among the individual departments. Medicine, with its large number of short stay, low acuity patients, actually experienced a decrease of nearly 1200 patients while Surgery's discharges grew by 580 over last year. Even within Medicine, the distribution was uneven as high acuity specialties like hematology/oncology, cardiology, and pulmonary saw growth while general medicine discharges declined compared to last year. This shift from a focus on volume alone to a focus on volume and acuity was particularly evident at the smaller procedure unit level. For example, the total number of cardiac catheterizations decreased, but there was a marked shift from diagnostic to interventional procedures with their higher acuity and reimbursement.

A fundamental change that enabled this higher case mix inpatient population was a shift of traditional inpatients to observation status. These were patients who needed hospital care but whose condition was not serious enough according to payor criteria to warrant inpatient level care. The creation of an eight bed Clinical Decision Unit and expansion of its staffing to enable 24x7 care allowed us to care for 3460 observation patients in 2004, an increase of more than 2000 over FY03. This not only enhanced the care of these individuals in a dedicated, well-staffed unit, but it freed inpatient beds to manage the growing number of higher acuity patients noted above.

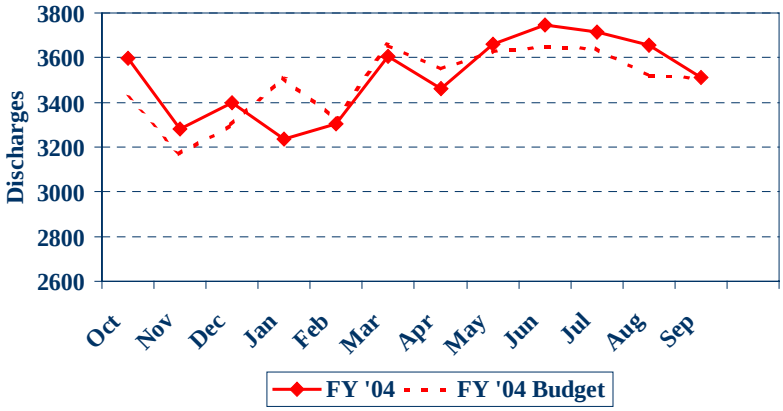
Major growth was also evident in our ambulatory activity as our overall number of clinic encounters grew by 16%. While some of this may have been due to a change in the ambulatory model to split-billing which increases hospital encounters, the underlying direction was volume growth. Outpatient surgery, endoscopy, and radiologic studies all showed significant growth over FY03.

The continuing growth of demand for our services is largely due to the continuing success in building our integrated network of primary care providers, multi-specialty groups, and community hospitals. It is also enabled by having contractual relationships with a full range of payors both local and national, private, managed care, and government. Finally, we were able to accommodate this large new volume of patients due to the excellent work done on Goal #3 by the throughput team and through the efforts of our operations groups who clean the rooms, transport the patients, move equipment and supplies, and feed both the staff and the patients.

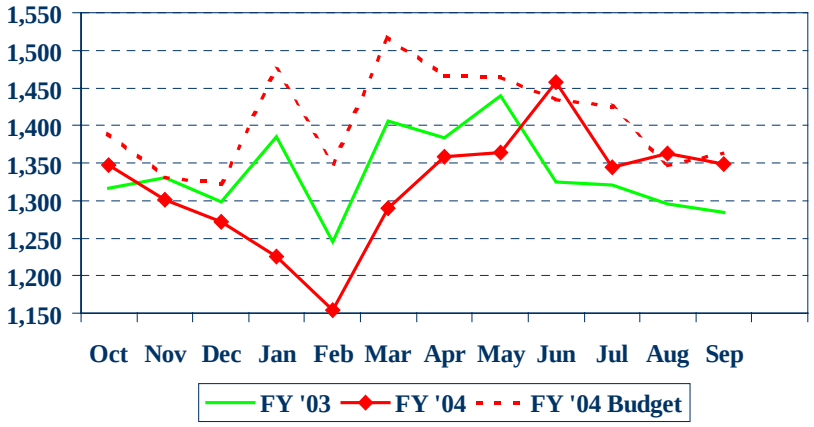
Total Discharges



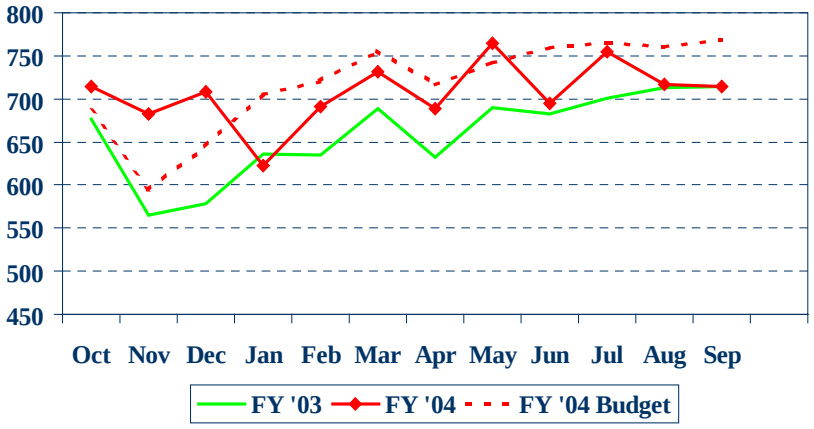
Total Discharges & Observation



Medicine Discharges



Surgery Discharges



Beth Israel Deaconess Medical Center
Statistics Report - Inpatient
For Period Ending September 2004

Current Month Actual FY04	Current Month Budget FY04	Current Month Act-Bud Var	Current Month Act-Bud Var%	Current Month Prior Year	INPATIENT	Year-To-Date Actual FY04	Year-To-Date Budget FY04	Year-To-Date Act-Bud Var	Year-To-Date Act-Bud Var%	Year-To-Date Prior Year	Year-To-Date Cur-Prior Var
					Discharges:						
1,349	1,364	(15)	-1.1%	1,284	Medicine	15,708	16,887	(1,179)	-7.0%	15,937	-1.4%
714	769	(55)	-7.2%	714	Surgery	8,433	8,622	(189)	-2.2%	7,857	7.3%
518	542	(24)	-4.4%	530	OB/GYN	6,446	6,303	143	2.3%	6,327	1.9%
415	421	(6)	-1.4%	426	Neonatology	5,250	5,000	250	5.0%	5,034	4.3%
58	67	(9)	-13.4%	50	Psychiatry	702	737	(35)	-4.7%	693	1.3%
82	93	(11)	-11.8%	64	Orthopedics	935	1,220	(285)	-23.4%	963	-2.9%
94	77	17	22.1%	81	Neurology	1,040	940	100	10.6%	933	11.5%
7	12	(5)	-41.7%	14	Other/Radiology	70	87	(17)	-19.5%	87	-19.5%
20	-	20	0%	18	CRC	306	-	306	0.0%	286	7.0%
3,257	3,345	(88)	-2.6%	3,181	Hospital Total	38,890	39,796	(906)	-2.3%	38,117	2.0%
					Patient Days:						
6,211	6,033	178	3.0%	5,887	Medicine	70,973	75,408	(4,435)	-5.9%	70,025	1.4%
3,905	4,081	(176)	-4.3%	3,722	Surgery	46,031	45,753	278	0.6%	41,486	11.0%
1,923	1,886	37	2.0%	1,774	OB/GYN	21,691	21,941	(250)	-1.1%	21,616	0.3%
2,299	1,993	306	15.4%	2,090	Neonatology	25,633	23,675	1,958	8.3%	23,752	7.9%
554	811	(257)	-31.7%	402	Psychiatry	7,555	8,921	(1,366)	-15.3%	7,489	0.9%
458	352	106	30.1%	252	Orthopedics	3,522	4,616	(1,094)	-23.7%	3,664	-3.9%
334	354	(20)	-5.6%	334	Neurology	5,005	4,327	678	15.7%	4,287	16.7%
9	29	(20)	-69.0%	21	Other/Radiology	149	218	(69)	-31.7%	202	-26.2%
46	-	46	0%	34	CRC	786	-	786	0%	725	8.4%
15,739	15,539	200	1.3%	14,516	Hospital Total	181,345	184,859	(3,514)	-1.9%	173,246	4.7%
					ALOS:						
4.6	4.4	0.2	4.1%	4.6	Medicine	4.5	4.5	0.1	1.2%	4.4	2.8%
5.5	5.3	0.2	3.1%	5.2	Surgery	5.5	5.3	0.2	2.9%	5.3	3.4%
3.7	3.5	0.2	6.7%	3.3	OB/GYN	3.4	3.5	(0.1)	-3.3%	3.4	-1.5%
5.5	4.7	0.8	17.0%	4.9	Neonatology	4.9	4.7	0.1	3.1%	4.7	3.5%
9.6	12.1	(2.6)	-21.1%	8.0	Psychiatry	10.8	12.1	(1.3)	-11.1%	10.8	-0.4%
5.6	3.8	1.8	47.6%	3.9	Orthopedics	3.8	3.8	(0.0)	-0.4%	3.8	-1.0%
3.6	4.6	(1.0)	-22.7%	4.1	Neurology	4.8	4.6	0.2	4.5%	4.6	4.7%
1.3	2.4	(1.1)	-46.8%	1.5	Other/Radiology	2.1	2.5	(0.4)	-15.1%	2.3	-8.3%
2.3	-	2.3	0%	1.9	CRC	2.6	-	2.6	0%	2.5	1.3%
4.8	4.6	0.2	4.0%	4.6	Hospital Total	4.7	4.6	0.0	0.4%	4.5	2.6%
1.70	1.69	0.00	0.3%	1.73	**Medicare Acuity**	1.69	1.69	0.00	0.1%	1.67	1.6%
1.24	1.17	0.07	6.0%	1.13	**Blue Cross Acuity**	1.21	1.17	0.04	3.4%	1.29	-6.2%
					Surgery Cases						
850	957	(107)	-11.2%	933	Inpatient	9,992	10,963	(971)	-8.9%	10,133	-1.4%
5,148	5,062	(86)	-1.7%	4,865	**Hospital FTE's**	5,014	5,060	46	0.9%	4,694	6.8%
105	21	(84)	-391.8%	62	**Temporary Help FTE's**	75	21	(54)	-252.2%	96	-21.6%
5.30	5.26	(0.04)	-0.8%	5.40	**FTEs/Adj Occupied Bed**	5.38	5.34	(0.04)	-0.7%	5.43	-0.9%

Beth Israel Deaconess Medical Center
Statistics Report - Outpatient
For Period Ending September 2004

Current Month Actual FY04	Current Month Budget FY04	Current Month Act-Bud Variance #	Current Month Act-Bud Variance %	Current Month Prior Year	OUTPATIENT	Year-To-Date Actual FY04	Year-To-Date Budget FY04	Year-To-Date Act-Bud Variance #	Year-To-Date Act-Bud Variance %	Year-To-Date Prior Year Variance #	Year-To-Date Prior Year Variance %
3,960	4,110	(150)	-3.6%	4,035	**Emergency Department Visits**	46,022	48,000	(1,978)	-4.1%	(1,041)	-2.2%
					Clinic Encounters						
7,035	6,864	171	2.5%	7,289	HCA	90,551	86,492	4,059	4.7%	2,833	3.2%
3,898	3,089	809	26.2%	3,543	HemOnc	41,948	38,920	3,028	7.8%	3,448	9.0%
17,993	17,311	682	3.9%	16,750	Other Clinics	220,071	216,740	3,331	1.5%	33,114	17.7%
28,926	27,264	1,662	6.1%	27,582	Subtotal	352,570	342,152	10,418	3.0%	39,395	12.6%
1,637	-	1,637	0.0%	-	New Split Bill Clinics	10,061	-	10,061	0.0%	10,061	0.0%
30,563	27,264	3,299	12.1%	27,582	Total Hospital Clinic Encounters	362,631	342,152	20,479	6.0%	49,456	15.8%
7,639	10,961	(3,322)	-30.3%	15,999	Total Private & HMFP Encounters	120,581	138,114	(17,533)	-12.7%	(75,008)	-38.3%
38,202	38,225	(23)	-0.1%	43,581	**Total Hosp & HMFP Encounters**	483,212	480,266	2,946	0.6%	(25,552)	-5.0%
					Procedures						
1,114	1,171	(57)	-4.9%	1,170	**Surgery**	13,780	13,597	183	1.3%	763	5.9%
69	67	2	3.0%	59	**Cath Lab**	847	840	7	0.8%	(57)	-6.3%
1,201	1,295	(94)	-7.3%	1,240	**GI/Endoscopy**	15,918	16,312	(394)	-2.4%	379	2.4%
256	165	91	55.2%	203	**Observation Cases**	3,461	2,079	1,382	66.5%	1,346	63.6%
46	108	(62)	-57.4%	84	**Radiology Outpatient Procedures**	1,244	1,241	3	0.2%	95	8.3%
					Exams						
15,851	15,911	(60)	-0.4%	14,355	**Radiology Outpatient Exams**	180,549	182,948	(2,399)	-1.3%	9,511	5.6%

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Goal #4: Financial Performance: Achieve breakeven operating bottom line through a well-grounded budget process and tight execution of revenue generation and expense management.

Summary of Results:

The Medical Center's unaudited Consolidated Gain from Operations was $35.9 million, better than our break even budget by the same amount, $50.5 million better than the prior year, and approximately $94 million better than the year prior to the initiation of the Recovery Plan.

These results are due to a combination of positive operating results in all elements of our mission, plus Board-approved reductions of reserves for doubtful accounts and third party settlements, plus one time settlements of prior year issues with a number of our payors.

The major driver of our positive performance in FY04 was Net Patient Services Revenue (NPSR) that was $23.8 million better than budget and $91 million above the prior year. The strong patient care revenue performance was due to positive performances in both ambulatory and inpatient settings. Outpatient activity was particularly robust with Observation cases growing by 64% or 1115 cases over prior year and clinic encounters growing 16% over FY03. On the inpatient side, a combination of 2% growth in inpatient discharges and a 2% increase in case mix reflected the Strategic Plan's approach of "selective growth" of specific clinical services. Initiating active management of our capacity and staffing, we moved low acuity general medicine cases from the inpatient setting to Observation status in our Clinical Decision Unit (CDU) in order to "save beds" for higher acuity patients in cardiac surgery, trauma, and transplantation. The result was a decrease of 229 discharges in Medicine that enabled the growth of 576 discharges in Surgery (7.3% increase) from the prior year.

In addition to this strong performance in patient care activity, FY 04 was another successful year for our research enterprise, continuing four consecutive years of double-digit growth in grant revenue. Direct research revenue grew by 13% over FY03 and exceeded budget by $5.3 million. More importantly for our bottom line, indirect research revenue was 14.6% greater than FY03 and $500,000 more than budget.

On the expense side, total expenses exceeded budget by $16.4 million, but $6.1 million was a "pass through" reflection of the growth in direct research activity. The remaining $10.3 million in expense variance was largely due to overspending on salaries and benefits. The salary variance of $7 million is almost entirely accounted for by the costs associated with nurse staffing during this period of growth. Management's decision to stay "ahead of the curve" on nurse staffing so as to be able to accommodate the volume growth led to three actions that resulted in salary expense beyond the budget. First, we increased the size of the budgeted market adjustment for nurses in order to respond to unanticipated changes in the market. Second, we hired over 50 FTE's of traveler nurses at a 40% premium to ensure that we could flex up to higher than budgeted occupancy that resulted from the early stages of implementing the strategic plan. Third, we "overhired" nurses in the summer period after graduation on the Willie Sutton theory that you have to go where the opportunity is. The result of this "spending on staffing" enabled us to grow NPSR well beyond the over-budget expense we incurred.

On the benefits front, the $3.7 million negative variance was due to an unanticipated increase in employee claims on our self-insured health insurance plan and our self-insured workman's compensation program.

The $2.5 million excess spending on supplies reflected the growing acuity of our patient mix with budget variances in pharmaceuticals ($1.7 million), blood products ($1.6 million) and patient supplies ($2.1 million).

Depreciation and interest expense both posted positive variances for the year-end results. Depreciation was under budget by $3.1 million primarily due to favorable timing of several major capital purchases towards the end of the year. Interest expense was $1.2 million under budget as a result of the lower than anticipated interest rates through the year and the further reduction in rates experienced after the August refinancing. The latter incurred a $3.0 million non-operating loss on extinguishment of debt as reflected in the August statements.

The Medical Center's unrestricted cash position improved by $58 million during FY04. Days cash on hand increased by 13.9 days from 106.7 days to 120.6 days at the end of the year. The growth in cash was due to the improved operating results, cash settlements with payors, continued fiscal restraint around capital purchases, and improved management of working capital items.

Patient cash collection topped $650 million in FY04 compared to $567 million last year, largely due to a decrease in days in Accounts Receivable from 57.2 to 51.8 days. The March settlement with CIGNA resulted in a $6.2 million cash settlement and the clearing of old receivables, an increase in NPSR of $2.8 million, and a reduction of bad debt expense of $1.6 million.

BID-Needham and APG both posted operating results that were better than budget. BID-N finished the year with its first operating gain ($400,000) since joining the BIDMC largely due to increased patient volume and revenue. APG's year-end loss was $100,000 better than budget and at $4.9 million, represented a nearly 50% reduction from the deficit in FY02.

In conclusion, FY04 was a challenging and rewarding year. Shortly after the fiscal year began, we needed to take a budget that had been crafted in the summer of 2003 for the third year of the Recovery Plan and adapt it in real time to a Strategic Plan that was adopted in November. As a result, we generated negative variances in salaries and supplies that would ordinarily have been intolerable. The good news is that through the effective collaboration of management and medical staff leadership we were also able to generate clinical and research revenue beyond our budget targets that more than offset the expense variances. The result was our first profitable year on "basic blocking and tackling operations" since the merger. When this was combined with a series of favorable resolutions on a number of one time settlements, the bottom line is one of which we are all proud and which should enable the Medical Center to move forward from strength with our future plans.

BETH ISRAEL DEACONESS MEDICAL CENTER AND AFFILIATES
SUMMARY OF OPERATING RESULTS
FISCAL YEAR 2004 THROUGH SEPTEMBER 2004
(In Millions)

	SEPTEMBER			YEAR TO DATE		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
REVENUE						
Net Patient Service Revenue	$ 62.1	$ 55.4	$ 6.7	$ 685.2	$ 661.4	$ 23.8
Direct Research	9.0	10.3	(1.3)	130.5	125.2	5.3
Indirect Research	4.1	4.2	(0.1)	51.0	50.5	0.5
Other Operating	4.8	3.9	0.9	48.4	48.0	0.4
Total Operating Revenue	80.0	73.8	6.2	915.1	885.1	30.0
EXPENSES						
Salaries	26.7	24.2	(2.5)	296.6	289.6	(7.0)
Fringe Benefits	4.8	4.2	(0.6)	53.8	50.1	(3.7)
Supplies and Expenses	24.2	20.0	(4.2)	248.3	245.8	(2.5)
MD Fees	4.9	4.5	(0.4)	56.0	53.9	(2.1)
Direct Research	9.4	10.3	0.9	131.3	125.2	(6.1)
Depreciation	2.1	5.3	3.2	59.9	63.0	3.1
Interest	2.0	1.9	(0.1)	21.2	22.4	1.2
Uncompensated Care	3.6	2.4	(1.2)	28.4	29.1	0.7
Total Expenses	77.7	72.8	(4.9)	895.5	879.1	(16.4)
GAIN (LOSS) FROM CURRENT HOSPITAL OPERATIONS	2.3	1.0	1.3	19.6	6.0	13.6
Hospital Prior Year Adjustments	0.6	-	0.6	20.8	-	20.8
GAIN (LOSS) FROM HOSPITAL OPERATIONS	2.9	1.0	1.9	40.4	6.0	34.4
Needham Campus Gain (Loss)	0.1	0.1	-	0.4	(1.0)	1.4
APG Loss	(0.6)	(0.7)	0.1	(4.9)	(5.0)	0.1
CONSOLIDATED GAIN (LOSS) FROM OPERATIONS	2.4	0.4	2.0	35.9	-	35.9
Loss on Early Extinguishment on Debt	-	-	-	(3.0)	-	(3.0)
Net Realized Gains (Losses)	0.3	-	0.3	1.9	-	1.9
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	2.7	0.4	2.3	34.8	-	34.8
Change in Unrealized Gain (Loss) on Investments	2.2	-	2.2	14.2	-	14.2
Net assets released from restrictions	-	-	-	-	-	-
Change Unrealized Gain(Loss) on Interest Rate Swaps	(4.8)	-	-	(9.2)	-	(9.2)
Transfer from CareGroup	1.1	-	-	1.1	-	1.1
CHANGE IN UNRESTRICTED NET ASSETS	$ 1.2	$ 0.4	$ 4.5	$ 40.9	$ -	$ 40.9

BETH ISRAEL DEACONESS MEDICAL CENTER AND AFFILIATES
COMPARATIVE BALANCE SHEETS
ASSETS
(In Millions)

	9/30/04	8/31/04	9/30/03
ASSETS			
Current assets:			
Cash and Investments	$ 292.2	$ 286.7	$ 199.2
Patient accounts receivable, net of allowance for doubtful accounts of Sep 04 $43.4,Aug 04 $47.8, and Sep '03 $ 55.4	111.7	114.2	102.2
Due from affiliates	0.2	1.0	35.6
Other current assets	51.1	56.5	47.9
Total current assets	455.2	458.4	384.9
Assets limited or restricted as to use:			
Held by trustees under debt and other agreements	6.3	6.3	9.3
Held for specific purposes and endowments	123.7	122.9	111.8
	130.0	129.2	121.1
Property and equipment, net	446.9	442.3	458.9
Debt issuance costs	10.3	10.4	5.5
Prepaid pension costs	21.4	21.7	25.3
Other assets	1.9	1.4	3.0
TOTAL ASSETS	$ 1,065.7	$ 1,063.4	$ 998.7

BETH ISRAEL DEACONESS MEDICAL CENTER AND AFFILIATES
COMPARATIVE BALANCE SHEETS
LIABILITIES AND NET ASSETS
(In Millions)

	9/30/04	8/31/04	9/30/03	
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	$ 8.2	$ 0.8	$ 0.8	7.4
				-
Accounts payable and accrued expenses	108.9	112.4	104.7	7.3
Estimated settlements with third-party payors	55.0	54.3	55.2	0.6
Total current liabilities	172.1	167.5	160.7	15.3
				-
Long-term debt	474.8	482.1	473.6	1.7
				-
Deferred gain on sale of property	18.6	19.1	24.7	(2.5)
				-
Other liabilities	49.5	45.2	41.1	8.6
Total liabilities	715.0	713.9	700.1	23.1
				-
				-
Net assets:				-
Unrestricted	226.9	225.8	186.0	14.4
Temporarily restricted	82.7	83.0	74.1	(7.6)
Permanently restricted	41.1	40.7	38.5	2.3
Total net assets	350.7	349.5	298.6	9.1
				-
TOTAL LIABILITIES AND NET ASSETS	$ 1,065.7	$ 1,063.4	$ 998.7	32.2

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***Goal #5: Customer Service and Employee Satisfaction*:** Achieve a sustainable high level of service quality for our patients and their families, our referring physicians, and our own medical staff and employees through recruiting, retaining, and developing an outstanding, diverse workforce

Summary of Results:
There were a number of initiatives that resulted in outstanding results in these areas.

Our monthly survey of a sample of discharged patients yielded the highest satisfaction scores in recent experience. With a benchmark target of having at least 60% of our patients indicate an "excellent" level as their willingness to recommend BIDMC to others, we exceeded the benchmark every month and exceeded 70% in two months of the year. Further evidence of achieving our goal of having highly satisfied patients comes from the company which performs our surveys. With their national scope they can compare our results to those of other teaching hospitals across the country, and when they have done so, we emerge as a top performer. BIDMC ranked in the top 10% of hospitals for overall teamwork between doctors, nurses, and staff, overall quality of doctor's care, overall quality of nurses' care, overall quality of care, and overall safety. Seven of our inpatient units were cited for top performance and received a five star customer service award for scoring at the 100th percentile for Overall Quality of Care. We utilize these surveys not just to reward this kind of excellent performance but to identify domains of care where we can improve as well as to identify our internal star performers who can share experience with other units.

The goal is to extend the survey instrument to ambulatory areas in the upcoming year and achieve a high level of performance there as well. Towards that end, we will be building on the success experience resulting from another Strategic Plan initiative---the work done in Health Care Associates. For years, our on-site primary care group had suffered from poor performance in answering the phone, the first line of response with their thousands of patients. Through a concerted effort of the managers, physicians, and HR, the entire system underwent major surgery. The phone staff was moved off site; new job descriptions were created with clear performance standards; all employees underwent extensive service training and were held accountable to performance standards. At the end of the process, the staff had undergone much turnover, but performance had improved several fold in measures of time to answer the phone and per cent lost calls.

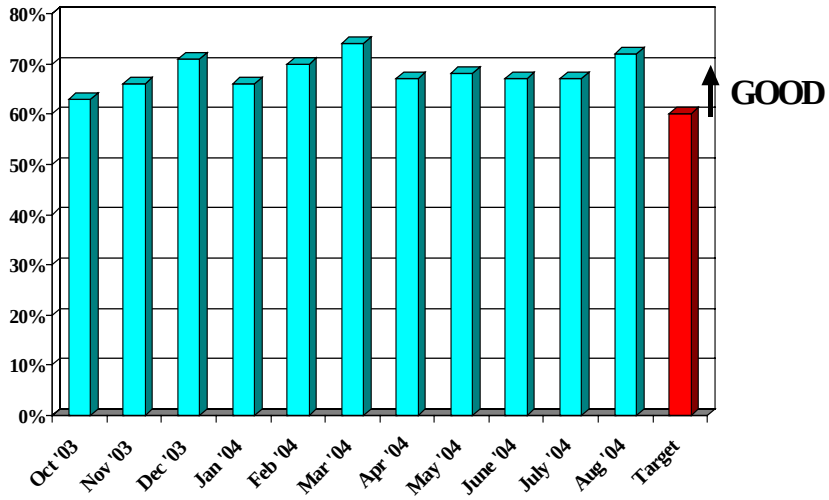
The lessons learned from the HCA experience are now being applied across the institution with new leadership in HR around workforce development and a clear commitment to invest heavily into establishing service standards, training our personnel, and achieving accountability for performance.

The gains in performance seen in our inpatient satisfaction survey should be as evident in the ambulatory experience where nearly 1,000,000 patient contacts occur annually in the Emergency Department, the clinics, radiology, and other procedure areas.

Beth Israel Deaconess Medical Center

FY'04 Patient Centered: Inpatients

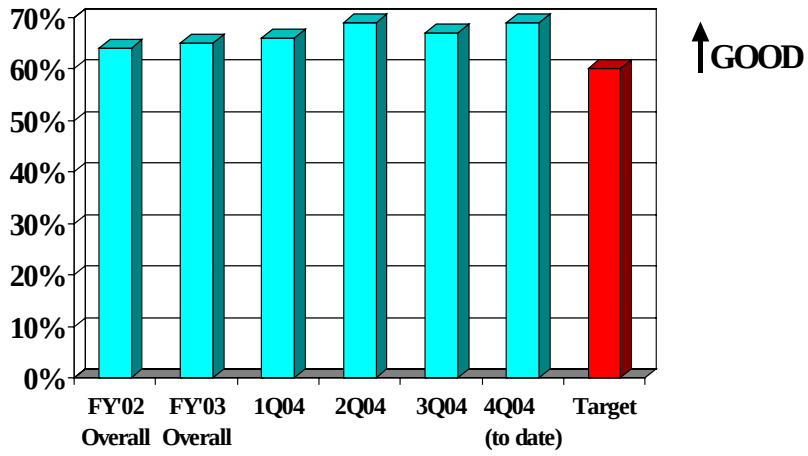
% Excellent - Likelihood to Recommend



Beth Israel Deaconess Medical Center

FY'04 Patient Centered: Inpatients

% Excellent - Likelihood to Recommend



***Goal #6: Medical Staff/Management Partnership*:** Establish mechanisms to create and support a culture where the leadership of the medical staff and administration jointly plan, achieve, and are held accountable for the Annual Operating Goals

Summary of Results:
Perhaps the most difficult goal to express or measure, the partnership sought in this goal is in many ways the foundation of success for a teaching hospital.

The effort this year focused largely on concrete, process-oriented steps that would establish trust and a positive working environment for the partnership to flourish. One such step was having each Chief create a set of annual operating goals for their department that would parallel those of the Medical Center. Chiefs accomplished this, and during periodic performance evaluations during the year, it was evident that the alignment of the departmental and institutional goals had created positive synergy and momentum.

Another action was including an update on the Annual Operating Plan performance by the COO at two meetings in each department each year. The result was that more than 400 faculty members in the 13 departments had the opportunity to learn about the Plan and heard details about our performance in quality and safety, volume, patient satisfaction, and financial performance. The principle of sharing information in a standard format at regular intervals was a valuable step towards building this partnership.

Major progress was made in establishing objective criteria for the sizing of Medical Center support for faculty salaries. This 'funds flow' which in FY04 was approximately $50 million is now clearly delineated so that BIDMC dollars that go to HMFP are earmarked for particular physicians doing particular tasks or fulfilling a responsibility that the Medical Center has identified as necessary. The development of and agreement upon formulae for determining the level of support for teaching, administrative work, and strategic investments in specific clinical and research areas has eliminated much of the tension and misunderstanding between management and the medical staff. Much of the progress in this area has been made with the assistance of Dr. Stuart Rosenberg who arrived at the beginning of the year to become the CEO of HMFP, the Harvard Medical Faculty Physicians. His leadership and experience have proven to be a major asset to developing this partnership further.

Finally, a major effort was mounted to provide new physicians with information about how the Medical Center operates. A web site with a detailed orientation for new doctors was activated this year and provides physicians, both new and old, with a readily accessible source of information about patient care policies, clinical practice guidelines, and the nuts and bolts of everything from how to admit or discharge a patient to our emergency preparedness and disaster planning materials. There has been heavy traffic at the site and early reaction has been very positive.

Ultimately, however, the process improvements need to translate into performance, and in FY04 we had a number of instances of how the enhanced partnership between medical staff and management can translate into results. One such area is clinical practice guidelines. A year ago, there were dozens of these guidelines in various stages of currency, various formats, and various places where they could be found.

Through a concerted effort, each of these was reviewed and either brought up to date based on current evidence or eliminated. The final set of guidelines are posted on the web and easily accessed by any member of the medical staff any time, any place. In addition, new guidelines were developed by multidisciplinary teams of physicians, nurse, and health care quality staff.

Another example of partnership was the implementation of our new joint venture with the Joslin Clinic involving new programs at BIDMC as well as new inpatient guidelines here and ambulatory guidelines at the Clinic. Business planning with joint physician/manager teams in Transplantation led to the endorsement of a muti-year, multi-million dollar investment by the Medical Center in personnel and equipment for this key service. Other business planning efforts are underway for other programs. Finally, the move to an ambulatory split billing model would have proven impossible had not an environment of trust been created through the developing partnership.

In each example, the partnership between medical staff and management has enhanced the efforts of both groups and justified the investment that each has made in time and effort.

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