

Redefining Health Care



2006 Annual Report

Memorial
Health SystemSM

Reaffirming Our Commitment to You

Respe

Dear Memorial friends and family,

For more than a hundred years, Memorial professionals have been changing our community for the better. From the time when doctors carried medical bags with them on routine house calls, to an era of amazing technological advances, Memorial has continued to redefine itself and reaffirm its role in our community.

For example, this year we've redefined detection through MEDPOINT® ExpressSM, which enables patients to access health care where it is most convenient for them – a retail environment. Plus, the SickWatch partnership with WSBT brings the latest updates on infectious diseases into your home through the nightly news. Memorial Leighton Heart and Vascular Center's Heartaware™ program delivers the latest cardiovascular information directly to your personal computer.

We've redefined the patient experience with Memorial's Sleep Disorders Center, which diagnoses various sleep disorders that can affect every aspect of a patient's life and health. We also focused on planning for spatial expansions that will enable us to help even more local residents in the future.

We've redefined the very way in which we work by continuing to focus on our annually renewed Wildly Important Goals (WIGs), which support our commitment to Memorial's mission, vision and values. Our Performance Excellence program, Lean Six Sigma, as taught by GE, is concentrating on achieving sustained breakthrough performance by streamlining processes and improving quality of care throughout the hospital.

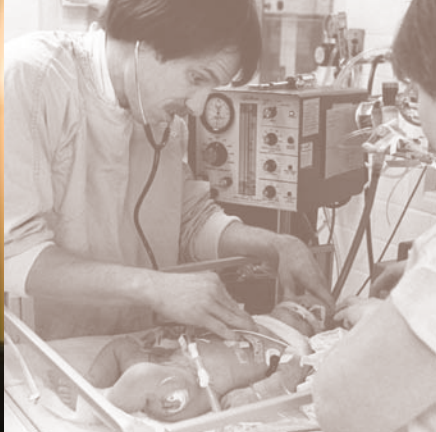
We reaffirmed our commitment to the community when we cut ground on the largest hospital expansion in Memorial's history – our new surgical suite. Considering that we perform more than 14,000 surgeries a year, it is time for us to grow into a much larger space. When the surgery center opens we will have one of the most technologically advanced surgical centers in the country, attracting additional surgeons to our area.

We have endeavored, in these ways and many others, to offer modern, creative ways to be accessible to you, our community, while maintaining our traditionally high standards of superior, compassionate care. I am honored to extend my thanks to our Board members, physicians, team members, and volunteers whose constant hard work, dedication, and generosity have helped Memorial continue to be the leading source of healthcare in our region.

Sincerely,



Philip A. Newbold
President and CEO
Memorial Health System



Compassion



Integrity



Excellence



Redefining Life After Surgery

As another good day for fishing in Green Township comes to a close, Hal Ort can't help but think how lucky he is. Lucky to be as active as ever without constant pain in his legs.

"Before the surgery, I was in pain all the time and I just couldn't take it anymore," said Ort. "It slowed me down so much that I had to give up certain parts of my life. I had to get off the farm because I couldn't do the work anymore; I couldn't get out on the football field and show the players how to tackle, and I couldn't even get in and out of my boat to go fishing with my granddaughter."

Finally, Ort decided the pain was too intense and the lifestyle change he was forced to make because of it was too much to bear. He decided to see a specialist.

"I went to see Doc Ferlick (Fredrick Ferlick, M.D.) and he told me I needed a new hip, which was a big surprise," said Ort. "I thought my knees were the problem, but he said that it was my hip. Doc thought it was all the years on the farm and the sports I played and coached that finally caught up with me."

After an extensive consultation with Dr. Ferlick, Ort decided to undergo a minimally invasive, total left hip replacement.

"Traditional hip replacement is done through an incision that is usually about 5 to 8 inches in length," said Fredrick Ferlick, M.D. "Beneath the incision, the muscle is separated, and the hip joint is exposed. We then remove the arthritic hip joint, and replace it with an implant."

"The 'mini' technique that we used with Hal allows us to perform the same surgery through two small incisions and with minimal muscle dissection," said Ferlick. "The benefit of the minimally invasive hip replacement is that patients typically will have shorter hospital stays, quicker rehabilitation, and better results. Hal was able to go home in just two days."

Since the hip replacement, Ort has been on the move. He is an employee of Memorial Home Care and works as a hospital valet, walking three to five miles every day while either parking cars or escorting patients. He enjoys fishing, volunteering as an usher at the University of Notre Dame, and he even helps out on the farm now and then.


"I really enjoy the people that I work with and the opportunity to help," said Ort. "The care I received at Memorial was great and I am so happy to be feeling normal again." And for Hal Ort, "normal" means wading into life, hip deep.



Fredrick Ferlick, M.D.,
Orthopedic Surgeon



"I hardly have any pain now. Doc did a great job with my hip and I feel great."
-Hal Ort

A close-up portrait of a young man with dark, wavy hair and glasses, smiling broadly. He is wearing a dark suit jacket over a light blue collared shirt and a dark blue tie. The background is a blurred, colorful bokeh of green, yellow, and red. A dotted line runs horizontally across the top of the image, and a vertical dotted line runs down the left side, intersecting the text.

“Dr. White is an amazing doctor. I’m just one of many kids he’s seen over the years, and it’s nice that he finds the time to keep in touch.”

-Christopher Ball

Redefining Neonatal Care

Born two and half months early and weighing just over 3 lbs., Christopher Ball spent the first few months of his life in Memorial's Newborn Intensive Care Unit (NICU), undergoing a number of procedures and tests, and receiving oxygen 24 hours a day to help his immature lungs.

The care Christopher received 21 years ago was at the cutting-edge of neonatal intensive care services. Now, many babies born at less than 2 lbs. have a great chance of survival thanks to the modern technology found in today's hospitals.

"We now have a drug called surfactant at our disposal," says Robert White, M.D., Director of the Regional Newborn Program. "These days many kids Christopher's size don't even need to go on respirators. For

those who do, respirators have become more refined in recent years, and better suited for fragile lungs."

"And what has changed even more than the technology is that neonatal services are more family-centered," says White. "Moms and dads are now encouraged to be with their children 24 hours a day and serve as part of the care team."

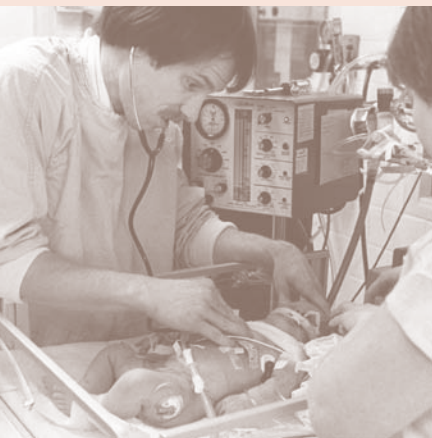
Christopher may have started out small, but a bright future awaits him. Aside from a mild case of Cerebral Palsy, Christopher lives a life any college-aged man would envy. Christopher is a junior at Manchester College, and will be the third generation in his family to graduate with a marketing degree. He is a member of the accounting and business club and also serves as president of his local chapter of Circle K International, a collegiate organization that

promotes leadership and service. Along with a school-sponsored rock climbing and cave diving expedition, Christopher also trekked more than 70 miles during a month-long trip to Spain this winter.

Every year, Christopher writes Dr. White a letter to let him know what he has been doing and how he is feeling, and Dr. White always sends something back. "He's an amazing doctor. I'm just one of many kids he's seen over the years, and it's nice that he finds the time to keep in touch," says Ball.

From somewhat uncertain beginnings, Christopher has become a thoughtful and introspective young man, applying his life experiences to what he's learning in the classroom.

"Because of what happened to me, I know that everything has a purpose. I think 'what am I supposed to learn from this experience?'" says Ball. "Especially when I look at other kids who have it a lot worse than I do... it really makes you think, and be grateful."



Robert White, M.D.,
Director of the Regional
Newborn Program

Redefining Trauma Care



"I feel safe when I'm at Memorial," says Sara Johnson. A hospital may seem like a logical place to feel safe; but that feeling is a rare commodity for someone who suffered the kinds of injuries Sara Johnson did last August when an outing with friends went terribly wrong.

The four girls were on an afternoon trip to a friend's house when their car was struck by a semi truck on Route 6. Sara took the brunt of the impact as the eighteen wheeler crashed directly into her side of the car. Rescue crews extricated Sara from the demolished car, and Memorial's MedFlight crew transported her to Memorial within an hour of the crash. Her friends miraculously escaped with minor injuries.

Suffering from an amazing list of life-threatening injuries, Sara spent the next six weeks in a number of Memorial departments, including four weeks back and forth to surgery and the intensive care unit and two weeks in rehabilitation.

These are just some of the many team members that touched Sara's life in some way. Representatives of Memorial's Level II Trauma Team: (clockwise from left) Robert Yount, M.D.; Scott Thomas, M.D., FACS; Christine Copeland, P.T.; Steve Shedd, CCEMT-P; Joan Madsen, BSN, RN; Donna Dickens, R.N.; Jeff Stoneburner, Paramedic; Bryan Boyer, M.D.; Amy Deel, BSN, R.N.; Janet Howard, CNS, R.N.

"I had a small brain injury, my lungs were collapsed, my liver was bleeding, my spleen was injured, my shoulder was broken, my hips were broken, my jaw was broken, both my arms were broken, and all my ribs were broken," says Johnson. "They tell me I was in pretty bad shape."

Though she doesn't remember much about time immediately following her accident, her family and friends have filled in the details, and were an important part of her recovery. The first memory Sara recalls was waking up to see pictures of friends and family surrounding her bedside.

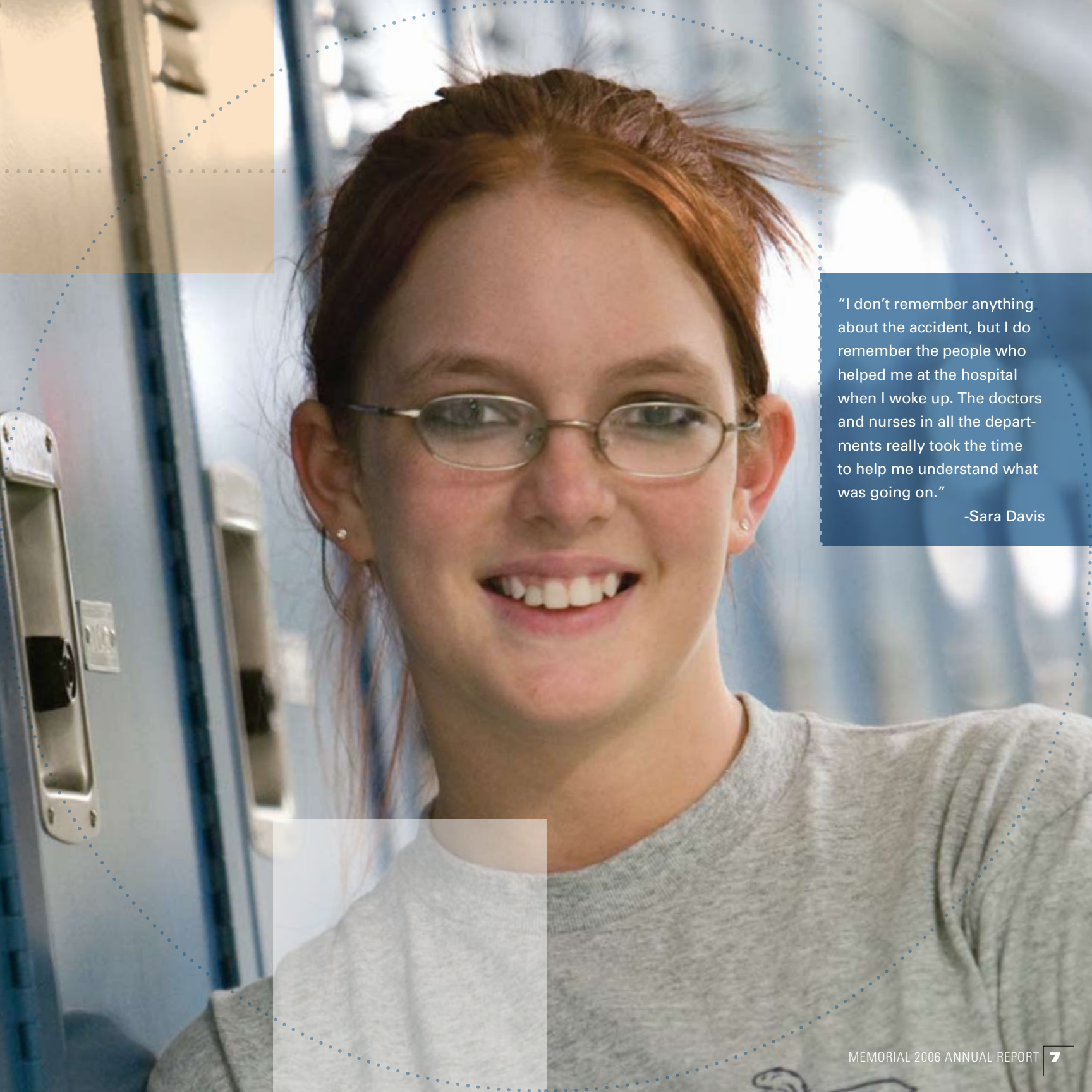
Despite the fact that she still has some scars from the numerous surgeries, and suffers from occasional pain as she heals from surgery on her pelvis, Sara is thriving as a junior at LaVille High School, hosting sleepovers and

going to movies. As an avid shopper and self-described "computer geek" Sara is reclaiming her life, thanks to the combined efforts of professionals from across Memorial. Though still tentative about getting back behind the wheel, she hasn't let her accident slow her down.

"Many of the doctors we had follow-up appointments with have been amazed that she's doing as well as she is," says Sara's grandmother Judy Brumley. "What a team you must have at Memorial in order to save someone with injuries like Sara had."

"I can't praise your team enough. I just rave about the people who acted so fast at the scene of the accident and at the hospital," says Brumley. "They were truly just remarkable and our family is forever grateful."





"I don't remember anything about the accident, but I do remember the people who helped me at the hospital when I woke up. The doctors and nurses in all the departments really took the time to help me understand what was going on."

-Sara Davis

Redefining Detection

In a fast paced, immediate results driven society, Memorial has redefined the way our community accesses and benefits from world-class, quality health care.

MEDPOINT® ExpressSM

In 2006, a new relationship with Community Health Network in Indianapolis marked the first collaboration between an outside health care organization and Memorial's MEDPOINT Express, with three new medical clinics opening in 2007.

MEDPOINT Express experienced rapid growth in 2006. Located in the Wal-Mart® Supercenters in Mishawaka, Valparaiso and Plymouth, nurse practitioners treat patients for minor health conditions when a trip to the doctor isn't convenient. Under this new model of health care delivery, people experience the quality care they need right where they shop.

2006 MEDPOINT Express statistics (Mishawaka, Valparaiso, Plymouth)

Common illnesses	77%
Immunizations	18%
Health Screenings	5%

What was your primary reason for visiting MEDPOINT Express?

No appointment was needed	38%
I could be seen quickly	37%
The clinic has fair prices	3%
I was shopping at Wal-Mart	3%
I have visited before	8%
The clinic accepts my insurance	1%
The clinic has a reputation for quality	1%
Other	9%

(physician closed, referred by previous patient, etc.)



SICKWATCH™

In April, WSBT Channel 22 launched a unique segment in association with Memorial Medical Group. SICKWATCH is a weekly report, much like a weather report, on the communicable diseases showing up in doctors' offices throughout the region. Thirty Memorial Medical Group and Med-Point offices collect diagnosis data each week. On Monday evenings at 11 p.m. and Tuesday mornings at 6 a.m., a map shows local families where illnesses such as strep throat and chicken pox are popping up, helping them recognize, and hopefully avoid the playgrounds, schools and stores where they could possibly get sick.



"We had never seen such a concept before, but we were excited to work with the news staff to dig into our diagnosis data to share what was going around," said Vincent Henderson, M.D., Chairman of the Memorial Medical Group Physician Management Committee. "If we end up having more people remember to wash their hands regularly as a result of these reports, it will have a great public health benefit."

Heartaware™

Cardiovascular disease is the leading cause of death in the United States, claiming the lives of nearly one million Americans every year. Many people are unaware that to a large extent, the disease is both modifiable and preventable. HeartAware is a free cardiovascular risk assessment that takes about 10 minutes to complete. At the end of the online assessment, you receive personalized, confidential information that will help you assess your current cardiovascular health status and identify those medical or lifestyle conditions that may lead to development of the disease. Knowing your risk profile enables you to take control of your health and provides you with the best defense against cardiovascular disease.



Cardiac Arrest, a joint venture between WSBT and Memorial Hospital of South Bend, was developed as part of the Heartaware program to educate people about the risk factors of heart disease. Those "arrested" at the University Park Mall were given a series of free health screenings to determine their risk for heart attack and stroke. "We wanted to show how people walk around everyday without realizing

they're at risk," says Bev Teegarden, Executive Director of the Memorial Leighton Heart & Vascular Center and Critical Care.

Take the Heartaware Risk Assessment test by logging onto www.qualityoflife.org and clicking the Heartaware Risk Evaluation link.

2006 Heartaware Program Statistics (Jan. 29, 2006 – Dec. 30, 2006)

Hits to Heartaware program	2,619
Applicants eligible for screening	1,216
Eligible applicants enrolled	679
Percent of eligible applicants enrolled	56



Redefining the Way We Work

Memorial's culture—its mission—embraces the care of employees, patients, families and guests. By encouraging a positive, healing work environment, the whole community benefits. Whether it's employees, doctors, patients or families, the spirit of Memorial brings out the very best in our team and in our greater community.

Memorial's Black Belt Team



Ken Anderson, D.O.

Matt Krathwohl

Carey Gaudern

Sandy Kowalski

Tom Merry

Jim Goshert

Diane Freel, R.N.

Lean/6 Sigma

Lean. Six Sigma. Black Belts. What do all these things have in common? And more importantly, what could they possibly mean to Memorial's patients?

Lean is about reducing waste by streamlining processes. Six Sigma helps reduce errors and improve the quality of care we give to our patients.

Over the next year, two GE Master Black Belts will work with Memorial to develop the Lean and Six Sigma processes system-wide, while training the Memorial Black Belt leaders who will continue this culture of change well into the future.

"None of this means anything unless it makes a big impact on the care we give to our patients," says Ken Anderson, D.O., vice president for quality and safety. "In the end, these tools will pave the way for Memorial to give the safest, highest quality care to patients and their families."

This past year, 2006, was centered on the goals we decided were most critical to accomplishing our mission. These goals are:

1. To Provide Quality and Safety in All That We Do
2. To Provide Excellent Service in a Great Place to Work and Practice
3. To Lead Change Through Innovation and Strategic Growth, and
4. To Achieve Strong and Sustained Financial Performance.

"We're concentrating on areas that can make a big difference in the patient experience at Memorial."

**-Matt Krathwohl
Executive Director of
Performance Excellence**

Connecting to the Vision

Matching the best candidate with the best position can prove a lot more difficult than it seems. Memorial has a new tool to help with the decision making. By taking the Hartman Value Profile, employees, prospective new hires and recruiters learn about unique working and communication styles, giving them more information with which to choose the best possible candidate and working environment for them.

Memorial began using the Hartman Value Profile in the final hiring selection April 2006 after researching the benefits of this tool. Since that time, more than 430 employees have been hired using this process.

Employee Development

Memorial offers some of the most sought after, nationally renowned, employee development classes in the nation including Franklin Covey, the Tom Peters Group, General Electric, Dupont, IDEO and Doblin. Additionally, Memorial believes in the power of lifelong learning and offers continuing education in a number of areas including performance essentials, world class service, leadership, mentoring and coaching. By tapping into the knowledge of America's top business and service leaders, Memorial's employees are encouraged to embrace a new level of customer service and patient care.

Great Place to Work® Efforts

It's about more than just "making the list," when it comes to seeing Memorial on FORTUNE magazine's list of the "100 Best Companies to Work For." It's about being a national leader in promoting the best employee, patient and family experiences. It's about cultivating a welcoming, nurturing and safe environment. A great place to work makes a great place for patients to get the best care possible.

Great Place to Work Efforts Initiated in 2006 in Response to Employee Surveys

- Enhanced Leadership Development Days
- Use of Joel Barker's Implication Wheel in preparation for pandemic flu
- Roll out of PeopleSoft for clinical and administrative use
- Advancement of the Baldrige Award application process
- Increased employee roundtables and focus groups
- Development of the Administrative Task Force Committee

How can employers maximize productivity while decreasing stress?

Focus on your employees. According to the Great Place to Work® Institute, the companies with the happiest employees are also the most productive.

Leadership Development Days

The 2006 Leadership Development Days (LD Days) were headlined by Fred Lee, who spoke about his book, "If Disney Ran Your Hospital," and Dr. Gary Yates, who represented Sentara Health. Altogether, 691 managers and "rising stars" attended the 2006 LD Days.

DocStock

When Memorial decided to put "innovation to work" for the 2006 annual United Way campaign, a call was placed to all musically attuned Memorial employees to put a band together and perform at DOCSTOCK '06, a one-night extravaganza of music and friendly competition. The winning band was the one who could pull the most money from the audience during their performance. This inaugural event helped to jump-start Memorial's United Way campaign which raised \$268,643 and proved once again that Memorial's embrace of innovative thinking can change the way we make a difference in the community. DOCSTOCK '07 is planned for July 21st.



DOCSTOCK '06

Attendance Over 350
Funds raised \$9,000

Memorial's United Way contribution

Memorial United Way campaign total ----\$268,643

Redefining the Patient Experience

The true value of health care exceeds the brick and mortar of the most technologically advanced buildings. It goes beyond advanced equipment and technologies. It's about creating a great patient experience and making a difference in the lives of patients every day.



Chocolate Therapy Arrives

2006 marked a full year of a new experience enhancement at Memorial Hospital. The traditional hospital coffee shop was reinvented to become the Memorial Chocolate Café™. In partnership with South Bend Chocolate Company™, one of the fastest growing companies in Indiana, staff, patients and visitors now have a new spot to de-stress and refresh. This eatery is part deli, part café, and part candy shop. Revenue generated goes to the Memorial Hospital Auxiliary to be used for various health projects. The partnership also includes a new venture called chocolate-medicalventures.com which will promote the creation of chocolate cafés in other hospitals around the country.

Sleep Disorders Center

Memorial Sleep Disorders Center's sleep-study rooms are equipped with oversized, handicapped-accessible bathrooms, light-dampening drapes, recliners, TVs and DVD players, bedtime snacks and soothing music, not to mention 400-thread-count sheets and luxurious robes. An infrared camera mounted in the ceiling is one of the only noticeable medical devices in the room, giving each visitor a "hotel room" feel that helps patients relax, and helps technicians get the results they need.

Memorial Sleep Disorders Center Program Statistics 2006

Sleep studies performed	1,400
Sleep apnea diagnosis	848
Multiple sleep latency tests	13
Pre-surgical studies on bariatric surgery patients	42
Indiana counties represented by patients	11
Michigan counties represented by patients	4

Memorial Leighton Heart & Vascular Center

The Memorial Leighton Heart & Vascular Center was designed as a national model of innovation, cutting-edge design and world-class care. After studying the needs of hospital patients and their families around the country, Memorial partnered with IDEO—an internationally known product and experience design company—to develop several significant advancements that were designed into every detail of the center's patient rooms and caregiver work hubs, including the entryways and reception areas. Together with national partners, and the passionate commitment of physicians, nurses, administrators and staff, Memorial has designed a truly unique health care environment.

Rapid Treatment - Acute MI (Heart Attack)

Heart & Vascular Center average	80 minutes
National goal	90 minutes or less

Mortality - Acute MI (Heart Attack)

Heart & Vascular average	5.4%
National average	8.0%

Aspirin given with the first 24 hours of admission

Heart & Vascular Center average	97.7%
National average	96.0%

Statistics provided by the American College of Cardiology

Heart & Vascular Center 3rd floor patient days	8,805
Cardiovascular short stay patients	2,705
Catheterization lab procedures	2,662

Since its opening in 2000, more than 500,000 people have enjoyed a HealthWorks! experience through a museum visit, an off-site program or a visit from the HealthWorks! Hummer.

Memorial's Auxiliary Volunteers

Volunteers play an integral role in nearly every department of Memorial Hospital, delivering medicine to patient floors, reassuring anxious families awaiting news after a surgery, greeting and escorting visitors and helping them find their way around campus, delivering flowers and mail to patients, or visiting with patients after surgery. Volunteers give that extra, special touch of compassion to the patients and families who pass through the doors of Memorial. Throughout its 113 year history, Memorial

Memorial Hospital Auxiliary volunteers

Adult Volunteers	200
Junior Volunteers	40
Hours of service in 2006	17,000

Volunteers help in the following areas:

- Atrium Gift Shop
- Patient Escort/Wheelchairs
- Surgery Waiting Room Host/Hostess
- Doctor and Patient Mail Delivery
- Pharmacy Delivery
- Information Desk – 2nd Floor
- Unit Volunteers
- Clerical Help
- Computer/Data Entry
- Greeters

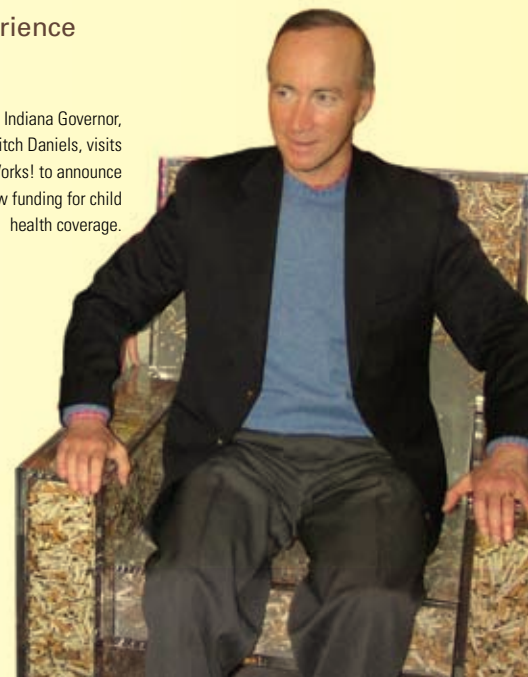
Hospital Auxiliary volunteers have contributed thousands of hours of service and millions of dollars to purchase medical equipment for many departments in the hospital, helping to improve the quality of life of patients, families, employees and the greater community.

Children's Hospital Planning

Along with staff, physicians and administration, world renowned health care architect Jonathan Bailey has developed the master plan for the new home of Memorial Children's Hospital. The five story, 87,000 square foot structure will be built on the northwest corner of campus between the surgery expansion and the Centennial Medical Office Building. Groundbreaking is tentatively scheduled for late 2009 with completion slated for 2011.

Well-known for its work with Memorial's Heart & Vascular Center, the internationally known product and experience design company IDEO will conduct patient experience exercises to aid in the design and development of Memorial Children's Hospital.

Indiana Governor, Mitch Daniels, visits HealthWorks! to announce new funding for child health coverage.



With the recruitment of pediatric sub-specialists from across the nation, Memorial Children's Hospital fulfills our promise of helping every child achieve their greatest potential through extraordinary care and innovative partnerships.

Memorial Children's Hospital 2006 Statistics

Babies born at Memorial	3,300
NICU admissions	433
NICU transports	174
General pediatrics admissions	2,724
PICU admissions	382
PET (pediatric emergency transports)	Coming
Pediatric Hematology/Oncology treatments/visits	2,227
HealthWorks! Kids' Museum Visits	76,283

As an associate member of the National Association of Children's Hospitals and Related Institutions (NACHRI), Memorial is recognized nationwide as an organization that promotes the health and well-being of children and their families through advocacy, education and research.

Reaffirming Community Commitment



A New Era of Surgical Services

Using the world's largest scalpels, Memorial "cut" ground on the largest expansion in the 113-year history of the organization. The surgical suite replacement project is slated for completion in 2009 with an increase to 22 operating rooms, 25 recovery rooms and 13 pre-surgery beds. The expansion will result in up to 45 new clinical jobs and 300 construction-related jobs over the next three years.



From left: Bipin N. Doshi, Chairman, Memorial Hospital Board of Trustees; Jayne Mitton, Executive Director, Surgical Services; Richard V. Warner, CSC, Chairman, Memorial Health System Board of Directors; Rafat H. Ansari, M.D., Memorial Health System Board of Directors; George B. Friend, M.D., Memorial Health Foundation Board of Directors; Maurice R. Hurwich, M.D., Memorial Hospital Board of Trustees; Chris Chocola, former U.S. Congressman; Stephen Luecke, Mayor, City of South Bend; Philip A. Newbold, President and CEO, Memorial Health System.

Bariatrics

The Memorial Weight Loss & Bariatric Surgery Center enjoyed another successful year in 2006, treating more than 100 surgical patients and more than 300 non-surgical patients since the program's inception. Through various programs, many patients were able to lose weight and embrace healthier eating and exercise habits.

The center's new 8-week childhood obesity program, "Way To Go Kids," also enjoyed great success in 2006. Participants, (ages 9 – 14) lost inches, learned new habits, and were introduced to new, healthier types of food. All participants said they would recommend this program to other kids.

Medical Conditions Resolved

Hypertension	83%
Diabetes	92%
Joint Pain	92%
Sleep Apnea	88%
Fatigue	100%
GERD	95%
Incontinence	100%

Clinical Research

In 2006, Memorial Medical Group Clinical Research Department saw a 65% rise in clinical trial contracts and an increase to 27 actively participating providers.

The new areas of trials included hypertension (Christopher Hall, MD), COPD (Jerome Skelly, MD), low testosterone, prostate cancer and overactive bladder (Mark Toth, MD), ankle sprain/tendonitis (James W. Tieman, MD), tendonitis/bursitis (Kevin McAward, MD), African-American asthma (Michael Hudson, MD), and Type II Diabetes (Matthew Teters, MD). Nicholas Straniero, MD conducted Osetoarthritis and Rheumatology trials and was the leading US investigator in the Rheumatology Study.

Study coordinators Kimberly Emmons, RN, LuAnn Tracey, RN, and Diane Messana, RN work with the physicians and subjects participating in the studies, and complete the necessary paperwork.

Community Health Alliance

Community Health Alliance (CHA), a physician hospital organization (PHO) jointly owned by Michiana Medical Associates and Memorial Health System, continues to thrive. CHA's membership has reached more than 112,000 through its coverage to insurers and their customers throughout 56 counties in Indiana, Michigan and Illinois. Members

can select from more than 15,380 physician locations, 102 hospitals and a number of other health care providers in the CHA network. CHA is recognized as the 15th largest managed care organization in the state.

Occupational Health

The Memorial Center for Occupational Health offers a full range of occupational health services, including:

- Treatment for on-the-job injuries
- Ergonomic assessments
- Follow-up care for Workers' Compensation cases
- Executive physicals
- Injury prevention
- Industrial rehabilitation
- Work-site assessment for Americans with Disabilities Act standards
- Drug screenings
- Corporate wellness programs
- Safety and accident prevention seminars

The Memorial Center for Occupational Health aim is to improve employees' health and the profitability of business's.

Memorial Center for Occupational Health Program Statistics for 2006

Client Companies	2,000
Patient Encounters	17,250
Gross Revenue	1,847,202



Memorial MedFlight

2006 Program Summary

Total Calls	361
Completed Transports	179
Inter-Facility Transports	128
Scene Transports	51
Requesting Hospitals	25
Requesting EMS-Related Agencies	15
Destination Hospitals	22

Helicopter EMS Safety Classes

Presented to Area Emergency Responders	59
Emergency Responders Attending	1,050

Memorial Home Care

Memorial Home Care (MHC) continued its strong support of the health system and the community with another record year of revenue and number of patients served. Census figures show that MHC served the needs of more than 10,000 patients per month in 2006. MHC was able to achieve record growth through additional lines of business, including medical courier service for medical offices.

Memorial Home Care continues to be the area's only fully diversified home care company accredited by the Joint Commission, the nation's leading accrediting organization, and has maintained this commitment to quality continuously since 1993.

In addition, MHC was named to the 2006 Home Care Elite, the inaugural compilation of the most successful home care providers in the country. This recognition is an affirmation

of MHC's commitment to an excellence that is lived out every day by staff as they care for patients and by their innovative training programs, such as the 45-hour class focused on dementia offered in 2006.

As the only JCAHO-accredited, full-service home care company in the area, MHC reaches out to the community every day through its people and products. MHC also serves the community through innovative initiatives such as the annual Wheelchair Tune-Up Day, quarterly AWAKE support groups for those with sleep disorders, annual flu shot clinics, and numerous health fairs.

Community Health Enhancement

In 2006, the Diabetes classes for Spanish speakers expanded to include English-speaking clients. The data will be analyzed to determine the cost savings for 2006 (2005 savings were calculated at \$215,000). There were no diabetes-related hospitalizations for this year's participants.

To combat a tendency for high blood pressure in African American males, a blood pressure check station has been located within a well-established local barbershop. The barbers are

trained to understand blood pressure readings and pass along proper educational materials to barbershop patrons.

CHE School-Community Health Coordinators became "7 Habits for Highly Effective Teens" program facilitators. A proposal has been submitted to offer the program in SBCSC high schools for the 2007-2008 school year.

St. Joseph County Women, Infants and Children (WIC) received a \$10,000 General Mills Champions for Healthy Kids Grant. Memorial will provide a "Fit WIC Activity Kit" called Playtime Tricks and Carrot Sticks to all parents with 3- and 4-year-old participants.

The Leighton Center continued its evolution in 2006, incorporating more programming focused on its new objective to promote brain health. The center also enjoyed a very successful Leighton Lecture featuring a Webcast with Dr. Paul Nussbaum.

Memorial Hospital centered its 2006 Community Plunge on preventing youth violence. Seventy-three community members, board members, and hospital personnel explored the youth development aspect of youth violence.

Memorial Medical Group Welcomes New Physicians

Memorial Medical Group recorded 388,000 patient visits and welcomed five new physicians in 2006.



Sarah M. Davis, M.D.

Melinda Dy, D.O.

Olivia G. Fusillo, M.D.

Alexander B. Vinuya, M.D.

Brandon W. Zabukovic, M.D.

Sarah M. Davis, M.D., joined the family physicians at Memorial Neighborhood Health Center, Southeast Clinic; **Melinda Dye, D.O.**, has opened her practice at Memorial Center for Occupational Health; **Olivia G. Fusillo, M.D.**, began practicing at Navarre Pediatric Group on Main Street; **Alexander B. Vinuya, M.D.**, joined the physicians at Ireland Road Medical Group; **Brandon W. Zabukovic, M.D.**, is currently accepting new patients at Memorial Neighborhood Health Center, Central Clinic.

Ronald McDonald Family Room

The Ronald McDonald Family Room at Memorial is a home-away-from-home for families of seriously ill children at Memorial Hospital. All services and resources provided to parents and families are available at no charge due to the generous support of the community.

In the Ronald McDonald Family Room, families can relax, take a quiet moment and a deep breath in a warm and comfortable environment.



The Ronald McDonald Family Room is approximately 1,800 square feet with three sleeping rooms, two baths with showers, a laundry room, a fully-equipped kitchen, a library and, of course, a family room. The Family Room is run and supported by caring and committed volunteers in the community through monetary donations, goods, services and countless hours of volunteer time.

The Family Room opened its doors November 5, 2002	
Open 12 hours a day, 365 days a year	
Volunteers	165
Volunteer Hours	8,760
Day Guests	17,535
Overnight Guests Since 2002	4,745
Visitors Per Year	15,000
(guest - parent or guardian, visitor - everyone else)	
110 Family Rooms in 12 countries	
269 Houses in 29 countries	

Financial Report

Memorial Health System ended 2006 in a strong and stable financial position. We maintained our strong AA- bond rating with both Standard & Poors and Fitch.

Net Revenue ended the year 2006 at slightly more than \$406 million representing a 7% growth over 2005. Prior to a one time adjustment for asset retirement obligation (ARO) of \$2.8 million, audited operating income ended at \$19.1 million representing a \$1.6 million growth over 2005 results. Operating Income exceeded our financial plan by \$2.5 million. Non-operating investment income was \$28.9 million in 2006 representing a \$9.4 million improvement over 2005. An early refunding of debt resulted in a loss of \$4.6M.

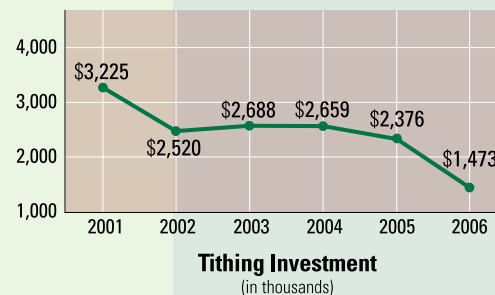
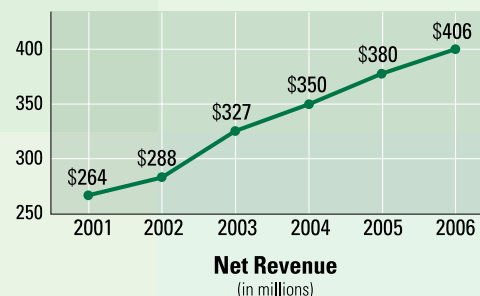
Capital investment into the Health System continues to remain high. Net additions to property, plant and equipment were more than \$39.7 million. Large capital investments in 2006 included: relocating the hospital pharmacy, significant information technology enhancements and a variety of new capital equipment and upgrades.

Looking ahead to 2007, our financial plan is not markedly different than 2006. We expect some growth in patient care services. Federal government payment will improve slightly and managed care contracting will provide some increase in overall reimbursement.

We will continue to focus efforts on tight management of labor and supply chain costs. Capital investment will remain at a brisk level. We have started work on our \$88 million Surgery replacement project. This is the largest project in Memorial's history. We are completely replacing our main operating rooms while also expanding from 10 to 13 new surgical suites. Outpatient surgery will be renovated and expanded from 5 to 6 surgical suites. Other areas affected by the project include renovation of patient, physician and employee areas, the construction of a new main entrance for the Hospital, new energy center and receiving dock and various campus improvements on the north side of the campus. The new Surgery areas will be completed by the middle of 2009 and the renovations to the Hospital will be complete by the end of 2010. Other large investments include information technology and routine capital improvements.

Over the next several years there are many exciting projects on the horizon including a new comprehensive cancer center and a children's hospital.

Memorial's exceptional financial performance combined with our continued commitment to the community through our tithing initiatives positions us well to fund our future and to continue to improve the quality of healthcare in our community.



Summary of Financial Condition and Results

As of December 31, 2006 and 2005 (in thousands of dollars)

Consolidated Balance Sheet

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 15,632	\$ 16,002
Account receivable, net of allowances	70,921	56,226
Other current assets	54,377	35,426
Total Current Assets	140,930	107,654
Asset Limited as to Use		
Internally designated	186,836	193,293
Externally designated under debt agreements	1,066	5,157
	187,902	198,450
Other Assets		
Property and equipment, net	284,663	268,787
Endowment investments	15,110	15,110
Other	20,379	16,210
	320,152	300,107
Total Assets	\$ 648,984	\$ 606,211
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 39,351	\$ 36,942
Other current liabilities	3,735	3,643
Total Current Liabilities	43,086	40,585
Noncurrent Liabilities		
Long-term debt, less current maturities	156,046	159,220
Other long-term liabilities	21,971	23,531
Interest rate and basis swaps, net	2,474	11,751
	180,491	194,502
Total Liabilities	223,577	235,087
Net Assets		
Unrestricted net assets	401,334	347,897
Temporarily restricted net assets	8,963	8,117
Permanently restricted net assets	15,110	15,110
	425,407	371,124
Total Liabilities and Net Assets	\$ 648,984	\$ 606,211

Consolidated Statement of Operations

	2006	2005
Unrestricted Revenue and Other Support		
Net patient service revenue	\$ 389,462	\$ 364,300
Other revenue	15,820	15,486
Net assets released from restrictions used for operations	933	710
	406,215	380,496
Expenses		
Salaries and wages	153,639	146,381
Employee benefits	42,666	41,996
Supplies and other	92,851	81,438
Professional fees and purchased services	42,293	41,734
Depreciation and amortization	24,124	21,511
Interest	6,836	6,188
Provision for bad debts	24,702	23,716
	387,111	362,964
Income from Operations before asset retirement obligation	19,104	17,532
Asset retirement obligation	2,820	—
Income from Operations	16,284	17,532
Nonoperating Income		
Investment income, net	15,401	21,092
Unrealized (losses) gains on swap transactions, net	13,489	(1,629)
Loss on early extinguishment of debt	(4,589)	—
	40,585	36,995
Net Income	40,585	36,995
Key Statistics - Memorial Hospital of South Bend, Inc.		
	2006	2005
Adult & Pediatric Patient Days	74,321	75,444
Adult & Pediatric Admissions	17,968	17,810
Average Length Of Stay	4.14	4.24
Emergency Room Visits	48,236	48,527
Surgeries	14,184	13,632

Memorial Health Foundation

Report to the Community

Fund Distributions in 2006



This report provides an accounting of the Foundation's funds invested in the past year to improve the quality of life for those who live in our community.

We enthusiastically express our gratitude to all who support this work.

If you would like more information on any of these gifts or want to learn more about Memorial Health Foundation, please call us at 574-647-6613, or visit www.qualityoflife.org/foundation.

Community

HealthWorks! - Operational Support	\$ 271,706
Multiple Investments in Creating Healthy Communities	88,957
HealthWorks! - Program Support	68,508
HealthWorks! - Student Scholarships	27,824
Leighton Lecture Series	25,045
HealthWorks! - Capital Improvements	4,356
Total	\$ 486,396

Service

Patient Family Hospitality - Memorial Reach Out Club	\$ 21,467
"CarePages" - Patient Family Support Internet Software	18,500
Memorial Children's Hospital - Family Support	14,211
Ronald McDonald Family Room at Memorial	10,000
Memorial Breast Care Center	2,091
Total	\$ 66,269

Quality

Radiation Oncology - Hospital Auxiliary	\$ 175,000
Memorial Children's Hospital - Clinical Support	170,395
Northern Indiana Cancer Research Consortium	28,471
Memorial Regional Cancer Center - General Support	28,083
Memorial Staff Education	15,058
Frontiers of Medicine - Continuing Medical Education	14,118
Memorial Staff Education - Reach Out Club	11,659
Memorial Children's Hospital - NICU Research	7,142
Total	\$ 449,926

People

Hospital Auxiliary Scholarships	\$ 48,310
William & Kathryn Shields Scholarships	21,482
Jane McFall Scholarships	17,744
Memorial Staff Activity Support - Reach Out Club	10,883
Friends of Nursing Scholarships	10,273
Helen Gregory Newland Scholarships	9,781
Kelly Brown Scholarships	6,135
Memorial Workforce Wellness	4,818
Arthur & Helen Shireman Scholarships	1,395
Total	\$ 130,821

Growth

Memorial Children's Hospital - Developmental Pediatrics	\$ 227,425
HealthWorks! Replication	15,380
Total	\$ 242,805

Total Distributions 2006 \$ 1,376,217

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Michael J. O'Neil

Memorial Hospital Executive Vice President and Chief Operating Officer

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The background features a grid of colored blocks: a large yellow block in the top-left, a light green block in the top-right, a light blue block in the middle-right, a light green block in the bottom-middle, a yellow block in the bottom-left, and an orange block in the bottom-right. A vertical dotted line runs down the center, and a horizontal dotted line runs across the middle, intersecting at the center.

Memorial
Health SystemSM

Memorial Health System, 615 North Michigan Street
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