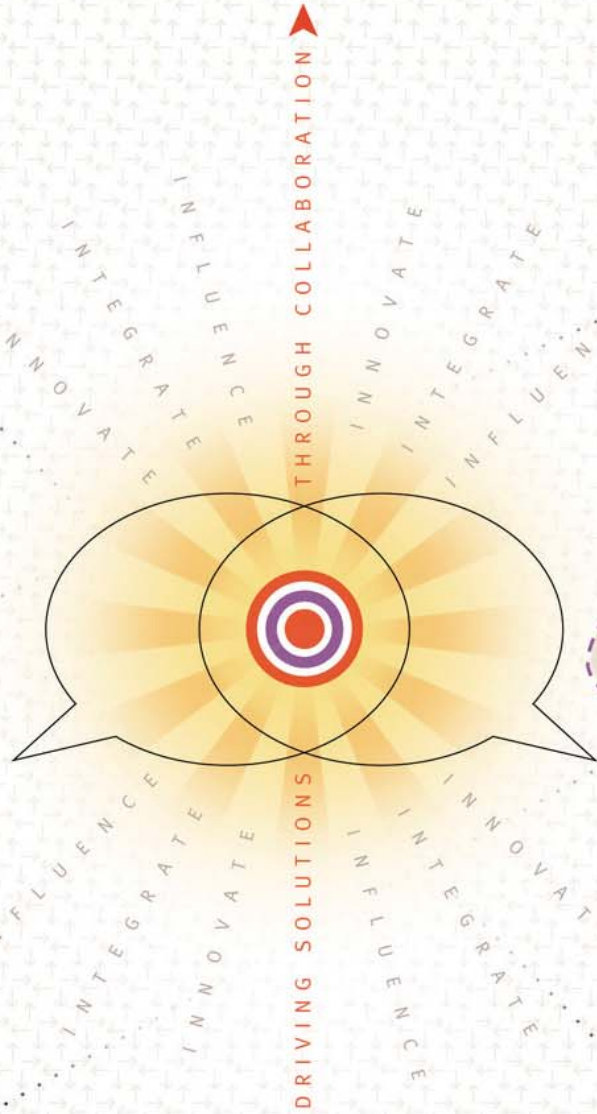


DRIVING SOLUTIONS THROUGH COLLABORATION

MEMORIAL HERMANN HEALTHCARE SYSTEM
2006 REPORT TO THE COMMUNITY



MEMORIAL[®]
HERMANN
Breakthroughs every day

MISSION

Memorial Hermann Healthcare System is a not-for-profit, community-owned healthcare system with spiritual values, dedicated to providing high quality health services in order to improve the health of the people in Southeast Texas.

VALUES

- ❖ In collaboration with others, we are committed to assessing and creating healthcare solutions which meet the needs of individuals in our diverse communities.
- ❖ We are stewards of community resources and are committed to being medically, socially, financially, legally and environmentally responsible.
- ❖ We are devoted to providing superior quality and cost-efficient, innovative and compassionate care.
- ❖ We collaborate with our patients, families, physicians, employees, volunteers, vendors and communities to achieve our Mission.
- ❖ We support teaching programs that develop the healthcare professionals of tomorrow.
- ❖ We support biomedical research and implementation of innovative technology to expand our knowledge and learn how to provide better care.
- ❖ We provide holistic healthcare which addresses with dignity the physical, social, psychological and spiritual needs of individuals.
- ❖ We are committed to the growth and development of the intellectual and spiritual capabilities of our employees.
- ❖ We have high ethical standards and expect integrity, fairness and respect in all our relationships.

FROM THE PRESIDENT AND THE CHAIRMAN OF THE BOARD

Our last report challenged community and business leaders to come together to devise innovative solutions for the growing problem of the uninsured in Houston. Since then, solid progress has been made. Working collaboratively, we are integrating services and programs to make them stronger. We are influencing elected officials and together we are finding resolution – one step at a time.

However, the healthcare crisis continues. Houston, the fourth-largest city in the country, ranks as one of the least healthy cities in the United States in terms of the health status of our residents. Health insurance premiums continue to increase at double-digit rates. And, Texas ranks among the lowest in the nation when it comes to funding for Medicaid.

According to the U.S. Department of Labor, only 44 percent of Texas employers provide insurance for their employees—nine percentage points below the national average. Texas leads the nation in uninsured residents with 27.5 percent; Harris County alone has more than 31 percent uninsured. In Medicaid funding, we're last in children's eligibility and 49th in non-working parent eligibility. As you might imagine, these numbers don't bode well for how we rank in health indicators against all states. In 2006, Texas ranked 46th in the overall health status of our residents.

Twenty-five percent of the uninsured in Houston are children with no access to health care. Yet, providing adequate primary care for our children at an early age can prevent the development of chronic health issues, such as obesity and diabetes. The fastest-growing segment of the uninsured is not the poor; rather, it's people earning between \$50,000 and \$90,000 a year. In addition, Houston is a small business-based economy with 100,000-plus businesses that employ fewer than 50 employees. To afford today's health insurance, employers need to have 200 or more employees.

Exacerbating the problem is the fact that Harris County has a major healthcare infrastructure problem. The demand for services from people without insurance has overwhelmed our emergency rooms and publicly funded programs. If these issues are not addressed, they will have crippling effects on our community in the years to come.

The healthcare crisis in Houston is larger than any one organization can solve, but it is not insurmountable. In this 2006 report, we highlight three of the collaborative programs in which Memorial Hermann has taken a leadership role. These programs address the ever-growing problem of the uninsured in Houston, increasing access to specialty care and educating our youth and their families about positive health behaviors. We are committed to aggressively pursuing solutions to our community's crisis with our time, talent and dollars. Won't you join us?



DAN WOLTERMAN
President/CEO



JAMES R. MONTAGUE
Chairman

A handwritten signature in blue ink that reads "Dan Wolterman".

Dan Wolterman
PRESIDENT/CEO
MEMORIAL HERMANN HEALTHCARE SYSTEM

A handwritten signature in blue ink that reads "James R. Montague".

James R. Montague
CHAIRMAN OF THE BOARD
MEMORIAL HERMANN HEALTHCARE SYSTEM



[HARRIS COUNTY HEALTHCARE ALLIANCE]



HARRIS COUNTY HEALTHCARE ALLIANCE

KAREN LOVE, EXECUTIVE DIRECTOR OF THE HARRIS COUNTY HEALTHCARE ALLIANCE, HAS A CLEAR VISION FOR THE ALLIANCE. SHE SEES IT BRINGING TOGETHER AT ONE TABLE REPRESENTATIVES OF THE PUBLIC SECTOR, HEALTH CARE AND THE BUSINESS COMMUNITIES TO DEVELOP SOLUTIONS TO THE CURRENT HEALTHCARE CRISIS.



In 2004, faced with evidence of a crippled healthcare infrastructure that included rapidly rising costs, an increasing number of uninsured residents, a growing overall population, a shortage of public resources and limited access to basic and emergency healthcare services, the Houston business community took action. The Greater Houston Partnership, in consultation with Harris County Judge Robert Eckels and Houston Mayor Bill White, formed the Public Health Task Force along with several committees and subcommittees to examine the Houston and Harris County public healthcare delivery system and make recommendations for improvement. More than 200 people, including public officials, representatives from large and small employers in Texas, hospitals, medical schools, health policy experts and community and business leaders, participated in this city-wide project.

“Our member organizations strive to prioritize the needs of the community over the needs of any individual organization.”

Innovate

ALLIANCE INITIATIVES

- ❖ Advocating for parity of benefits in physical and behavioral healthcare
- ❖ Working with community clinics to become federally qualified and increase hospital support of them
- ❖ Assessing and tracking key community health indicators
- ❖ Developing low-cost health insurance products for employers
- ❖ Educating the business community

ABOUT THE HARRIS COUNTY HEALTHCARE ALLIANCE GOVERNING BOARD

The Alliance is creating an 11-member governing board comprised of seven founding members elected by the general membership and four representing key city and government agencies. The Alliance will be supported by contributions from member organizations and grant funds, when available.

The Public Health Task Force identified two broad areas that hindered the healthcare infrastructure: limited capacity for preventive, primary and outpatient specialty care services and lack of collaboration among agencies providing public services. Its recommendations resulted in the formation of the Harris County Public Health Care System Council, which, in turn, created the Harris County Healthcare Alliance to address these problem areas.

As a leader in the healthcare community, Memorial Hermann recognizes the vital importance of these efforts to the future of healthcare. We have played a significant role in the evolution of the Harris County Healthcare Alliance, and we were one of the first organizations to join the Alliance.

“Our mission is to serve as a coordinating entity to assist public and private healthcare providers in delivering efficient services, as well as to increase resources to reduce healthcare costs and expand access to care,” says Karen Love, executive director of the Harris County Healthcare Alliance. “We keep the community perspective at the forefront. Our member organizations strive to prioritize the needs of the community over the needs of any individual organization.”



Karen Love
Executive Director of the
Harris County Healthcare
Alliance



PROJECT ACCESS

SUBSIDIZED CLINICAL SERVICES

TRANSPORTATION



SURGERY

PROVIDER HEALTH NETWORK

PHARMACEUTICAL SERVICES

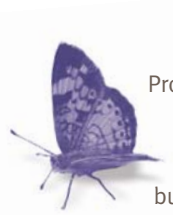
TIMELY ACCESS TO PRIMARY CARE

LAB & DIAGNOSTIC SERVICES

[GATEWAY TO CARE]

GATEWAY TO CARE

SPENDING MORE TIME CARING FOR HER PATIENTS IS WHAT DR. JEANMARIE SALINAS OF MEMORIAL HERMANN SOUTHEAST HOSPITAL IS MOST PLEASED ABOUT WHEN IT COMES TO WORKING WITH GATEWAY TO CARE.



Providing 100 percent access to health care for the uninsured and underinsured population of Harris County is Gateway to Care's ultimate vision. Working together with more than 170 leaders in health care, government and the business community, Gateway to Care is well on its way to reaching its goal.

Established in 2000, the Gateway to Care project began with six member organizations, including Memorial Hermann. The mission was to establish a mechanism for healthcare agencies, coalitions, funding entities and advocacy groups to coordinate common administrative and service delivery activities to provide a seamless healthcare delivery system.



Dr. Jeanmarie Salinas
Memorial Hermann Southeast
Hospital Medical Staff

Integrate

GATEWAY TO CARE PROVIDER HEALTH NETWORK PARTNERS

Advanced Diagnostics
Blue Cross Blue Shield of Texas
Christus St. Catherine Hospital
Harris County Hospital District
Harris County Medical Society
HCA-Gulf Coast
Home Health Services
Indian Doctors Association
LabCorp
Memorial Hermann Healthcare System
Physicians Alliance for Quality
Southwest MRI
Texas Physical Therapy Association
The Methodist Hospital

If you are interested in becoming involved with the Gateway to Care Provider Health Network, call 713.783.4616.

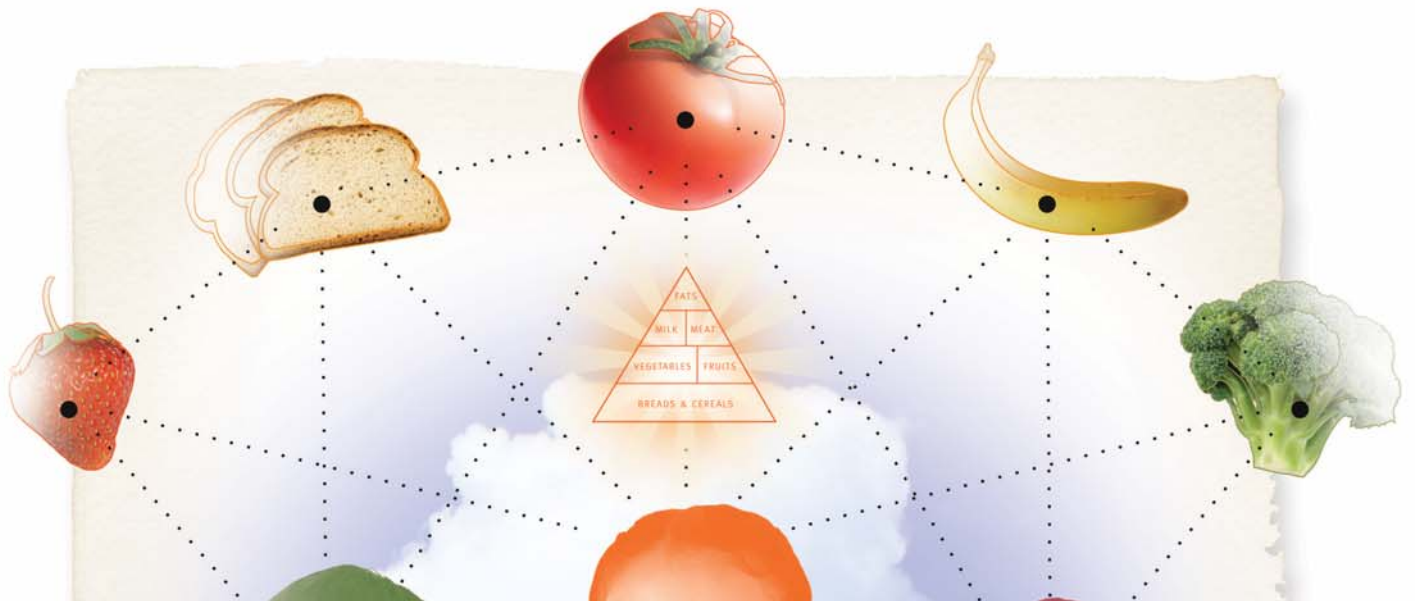
Through the years, Memorial Hermann has taken a leadership role in several Gateway to Care initiatives. Its most recent effort is the Gateway to Care Provider Health Network (PHN), launched in November 2005.

The Gateway to Care PHN is based on a national model called Project Access, where a network of physicians and ancillary service providers have agreed to take a self-determined number of uninsured patients who are pre-screened and deemed eligible. This model has had positive outcomes in emergency room utilization and healthcare costs/capita, and in increasing the number of patients who find primary medical homes. The PHN provides qualified patients with access to free lab, diagnostic, transportation and limited pharmaceutical services. It also coordinates the care for these services, freeing up the physicians who are donating their time to do what they do best: focus on their patients.

Salinas, a specialist in gynecology and women's health issues at Memorial Hermann Southeast, is a member of the Gateway to Care PHN.

"I've treated several patients through the PHN project and have been amazed at their coordination efforts," she says. "I recently had two patients who required surgery. I contacted the PHN staff and told them what I needed and they did all the legwork to ensure that the patients had access to everything they needed for a successful outcome. If we had more physicians participating in programs like this, where people could obtain health care sooner rather than later, it would ease the burden on our current healthcare system."

"If we had more physicians participating in programs like this, where people could obtain health care sooner rather than later, it would ease the burden on our current healthcare system."



[HELP]

[HEALTHY EATING LIFESTYLES PROGRAM]

HEALTHY EATING AND LIFESTYLES PROGRAM [HELP]

KIMBERLY RANDOLPH,
A FAMILY NURSE PRACTITIONER
AT THE JANE LONG MIDDLE
SCHOOL LOCATION OF MEMORIAL
HERMANN HEALTH CENTERS FOR
SCHOOLS, OPERATES WITH ONE
MISSION IN MIND: KEEPING CHILDREN
HEALTHY AND IN SCHOOL SO THAT
THEY CAN CONTINUE TO LEARN.



Founded in 1996, the Jane Long Middle School location was the first of five Memorial Hermann Health Centers for Schools. This innovative program, currently serving 24 schools, was designed to provide diagnosis and treatment of minor illnesses and injuries, preventive health measures, physicals, immunizations, management of some stable chronic illnesses, counseling and social service assistance to children with minimal or no health insurance. Located on the school campus for more than 10 years, it has been and continues to be a medical home to thousands of children who otherwise might not have access to health care.



Kimberly Randolph
Family Nurse Practitioner
Jane Long Middle School
(with student Christian Macias)

Influence

THE OBESITY EPIDEMIC

- ❖ In 2004, 18.8% of children ages 6 to 11 and 17.1% of children ages 12 to 19 were overweight
- ❖ 38.7% of the children served by the Memorial Hermann Health Centers for Schools have been diagnosed as overweight or obese*
- ❖ Risk factors for heart disease, such as high cholesterol and high blood pressure, occur with increased frequency in overweight children and adolescents compared to children with a healthy weight
- ❖ One in three American children born in 2000 will develop diabetes in their lifetime
- ❖ Overweight children are more likely to become overweight adults
- ❖ 80% of high school students do not eat fruits and vegetables five or more times a day
- ❖ 85% of adolescent females do not consume enough calcium
- ❖ 64% of high school students do not meet recommended levels of physical activity

Source: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention

* Internal Data

In 2005, the Memorial Hermann Health Centers for Schools took on a new challenge – tackling the growing problem of obesity in children. The Healthy Eating and Lifestyles Program (HELP), developed for children who have a high body mass index, involves the entire family.

“It’s important that families understand the role nutrition and physical activity play in their health,” says Randolph. “Without this knowledge, these children could be put at an increased risk for heart disease, diabetes and high cholesterol. If the problem is not addressed now, it could eventually become a drain on healthcare resources, as well as increase insurance rates for everyone.”

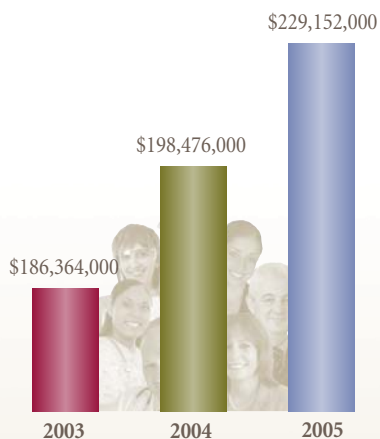
HELP incorporates nutrition, mental health and medical components. A dietitian meets with students and families to assess current eating patterns and physical activity levels. The dietitian then develops achievable meal plans and physical activity goals and the family is placed in a 12-week behavior modification program. Program sessions focus on self-esteem and stress management skills to help develop a more positive lifestyle. The program emphasizes lifestyle changes over weight loss and measures success through lowered body mass index, reduced cholesterol and evidence of changes in eating and physical activity behaviors. Following graduation, follow-up support continues with the interdisciplinary staff of nurse practitioner and dietitian.

Says Randolph: “Over 80 children are presently enrolled in various stages of HELP, and there is always some type of progress to cheer about, whether it be a decrease in cholesterol, an increase in vegetable and fruit intake and physical activity or an inch off their waist or hips.”

“It’s important that families understands the role nutrition and physical activity play in their health.”

COMMUNITY BENEFITS

IN 2005, MEMORIAL HERMANN CONTRIBUTED \$194 MILLION FOR UNCOMPENSATED COST OF CARE; \$30 MILLION TO SUPPORT EDUCATION FOR MEDICAL PROFESSIONALS, INCLUDING PHYSICIANS, NURSES, TECHNICIANS AND OTHERS; \$3.9 MILLION FOR COMMUNITY BENEFIT PROGRAMS, SUCH AS THOSE PROFILED IN THIS REPORT; AND OTHER CONTRIBUTIONS IN SUPPORT OF INITIATIVES SUCH AS THOSE THAT FOLLOW.



Memorial Hermann's contributions to the community include the cost of caring for charity patients, the unreimbursed cost of caring for Medicaid patients and the unreimbursed cost of subsidized services, medical education and other programs, such as the Memorial Hermann Health Centers for Schools.

In 2005, Memorial Hermann voluntarily changed its reporting methods to reflect accounting guidelines developed by the Catholic Health Association in cooperation with VHA, Inc. These standardized accounting methods assure that quantitative reports of community benefit are credible, accurate and comparable to reports from other organizations.

Memorial Hermann collaborated with the American Heart Association in 2005 and 2006 to sponsor the Houston Heart Walk and Go Red For Women, a national campaign urging women to take charge of their heart health. Memorial Hermann also annually sponsors the Walk to Cure Diabetes and the Susan G. Komen Race for the Cure.

Strong leadership and participation made the 2005 Memorial Hermann United Way Campaign its most successful, ever with contributions exceeding \$774,000. As a pacesetter for health care in the greater Houston area, Memorial Hermann annually leads the industry in contributions.

In late 2005, when Hurricanes Katrina and Rita roared ashore along the Gulf Coast, Memorial Hermann launched a large-scale operation to evacuate critical patients from Ochsner Hospital in New Orleans. The evacuation utilized two of Memorial Hermann's four helicopter ambulances, six ground ambulances and two medical jets. Helicopters evacuated patients from Ochsner to a staging area in Baton Rouge, where they were transferred to jets or ground ambulances for transport to Houston. Memorial Hermann's 17,000 employees flooded the internal e-mail system with requests for ways to help. They voluntarily cashed in \$55,000 in paid time off and raised an additional \$15,000 to benefit hurricane survivors. They donated nine truckloads of food and clothing.

At the request of the City of Houston, Memorial Hermann partnered with The University of Texas Health Science Center at Houston to staff and stock a world-class medical clinic for Katrina evacuees at the George R. Brown Convention Center in downtown Houston. Emergency delivery of critical supplies and pharmaceuticals (valued at \$500,000) was arranged by Memorial Hermann through its vendor partnerships with Cardinal Health, GE and Roche. More than 10,000 evacuees were treated at the clinic before it closed. By mid-January 2006, Memorial Hermann hospitals across the city had admitted or treated more than 6,800 Katrina evacuees, many of them non-resource patients, at a cost of nearly \$37 million.

In an effort to provide convenient alternatives to emergency rooms for non-urgent care, Memorial Hermann opened its second Neighborhood Health Center in 2006. Located in Northwest Houston, the center – like its predecessor in the Southwest area – is staffed by board-certified nurse practitioners and physician assistants and does not accept insurance. Services are provided for a flat fee of \$45.

Finally, the Memorial Hermann Health Centers for Schools brings healthcare and health education to children who will otherwise not obtain it and keeps them in school where they can learn. Memorial Hermann Health Centers for Schools provides care to children enrolled in 24 schools.

ABOUT MEMORIAL HERMANN SPECIALTY SERVICES AND LEADING PROGRAMS

WITH OUR WORLD-CLASS CLINICAL EXPERTISE, LEADING-EDGE TECHNOLOGY AND INNOVATIVE MODELS OF CARE DELIVERY, MEMORIAL HERMANN IS A VITAL AND VALUED RESOURCE THAT HAS GAINED NATIONAL RECOGNITION FOR ITS PROGRAMS, SERVICES AND CLINICAL CAPABILITIES, MANY OF WHICH ARE OFFERED IN AFFILIATION WITH THE UNIVERSITY OF TEXAS MEDICAL SCHOOL AT HOUSTON.

FACTS AND FIGURES

- ❖ 9 general acute-care hospitals
- ❖ 2 specialty acute-care hospitals:
(Children's Memorial Hermann Hospital and Memorial Hermann|TIRR)
- ❖ 3 long-term acute-care hospitals
- ❖ 21 regional affiliates
- ❖ 4 managed acute-care facilities
- ❖ 1 retirement/nursing center
- ❖ 1 home health agency
- ❖ 323,258 annual emergency visits
- ❖ 21,536 annual deliveries
- ❖ 3,185 annual Life Flight air ambulance missions
- ❖ 16,988 employees (full-time)
- ❖ \$183,533,737 annual benefits paid
- ❖ 3,286 beds (licensed)
- ❖ 4,178 medical staff members
- ❖ 26 residency programs
- ❖ 46 fellowship programs
- ❖ 1,324 physicians-in-training
(physicians and fellows)

Our specialty services include:

Air Ambulance – Memorial Hermann Life Flight® is the only not-for-profit air ambulance serving Houston and surrounding communities and the only program in Houston accredited by the Commission on Accreditation of Medical Transport Systems.

Burn Treatment – The John S. Dunn Sr. Burn Center is the only comprehensive burn treatment center in Houston.

Cancer Care – Our four comprehensive, accredited cancer programs are led by multidisciplinary teams of specialists and supported by the latest technology.

Critical Care – Neuro, cardiovascular, shock trauma, medical and surgical ICUs are located throughout the Memorial Hermann System. Our innovative eICU® supports and enhances the care we provide directly at the bedside by allowing physician specialists to keep an even closer eye on critical care patients 24 hours a day, seven days a week.

Heart & Vascular Institutes – Located on the campuses of the Texas Medical Center, Memorial City and Southwest hospitals, our Heart & Vascular Institutes offer leading-edge technology for advanced diagnosis and treatment delivered by an outstanding, experienced medical staff.

Mischer Neuroscience Institute – Stroke centers, Gamma Knife® radiosurgery and an epilepsy center highlight our offerings, with renowned neurosurgical and neurology subspecialty physicians leading the way.

Organ Transplantation – Nationally recognized for pediatric and adult liver, kidney and pancreatic transplantation, our center at Memorial Hermann-Texas Medical Center is one of the busiest in the country.

Orthopedics – We offer the latest minimally invasive hip and knee replacements, ankle replacements and advanced arthroscopy.

Pediatrics – Anchored by Children's Memorial Hermann Hospital, one of the nation's largest children's hospitals, we offer the latest medical and technological advances in maternal fetal medicine and neonatal critical services, as well as renowned programs in pediatric trauma, neurosciences, pulmonology and cardiology.

Sports Medicine – Anchored by the new Roger Clemens Institute for Sports Medicine & Human Performance, Memorial Hermann offers advanced sports medicine, orthopedic care, rehabilitation and human performance testing to athletes of all levels – from high school and college players to elite professional, competitive and recreational athletes. In addition, Memorial Hermann serves the greater Houston area through a network of community-based sports medicine physicians and 28 sports medicine and rehabilitation centers.

Trauma Services – Memorial Hermann is home to one of only two Level I Trauma Centers in Houston and the only dedicated pediatric trauma service in the city.

MEMORIAL HERMANN FACILITIES AND PROGRAMS

ACUTE-CARE HOSPITALS

Memorial Hermann–Texas Medical Center
Memorial Hermann Fort Bend/Sugar Land Hospital
Memorial Hermann Katy Hospital
Memorial Hermann Memorial City Hospital
Memorial Hermann Northwest Hospital
Memorial Hermann Southeast Hospital
Memorial Hermann Southwest Hospital
Memorial Hermann The Woodlands Hospital

SPECIALTY INSTITUTES

Memorial Hermann Heart & Vascular Institute–Memorial City
Memorial Hermann Heart & Vascular Institute–Southwest
Memorial Hermann Heart & Vascular Institute–Texas Medical Center
The Roger Clemens Institute for Sports Medicine & Human Performance
Mischer Neuroscience Institute

SPECIALTY HOSPITALS

Children’s Memorial Hermann Hospital
Memorial Hermann Continuing Care Hospital
Memorial Hermann Prevention & Recovery Center
Memorial HermannTIRR

MANAGED HOSPITALS

Huntsville Memorial Hospital
Memorial Hermann Baptist Beaumont Hospital
Memorial Hermann Baptist Orange Hospital

RETIREMENT LIVING

University Place Retirement Community

LONG-TERM NURSING CARE

Memorial Hermann Spring Shadows Pines
University Place Nursing Center

OTHER SUBSIDIARIES

The Memorial Hermann Foundation
B. J. and Margaret Bradshaw Wellness Center–Memorial Hermann/HBU
Memorial Hermann Home Health
Memorial Hermann Health Network Providers, Inc.
Memorial Hermann Medical Group

WEB SITE

memorialhermann.org

MEMORIAL HERMANN GREATER HOUSTON LOCATIONS



- Memorial Hermann Acute-Care Hospitals
- ★ Specialty Hospitals
- ◆ Long-Term Nursing Care
- ▲ Specialty Institutes



HOW YOU CAN HELP

THE ISSUES SURROUNDING TODAY'S HIGH COST OF HEALTH CARE AND THE RESULTING FINANCIAL BURDEN ON OUR BUSINESS COMMUNITY ARE BROAD AND COMPLEX. SEVERAL LOCAL INITIATIVES THAT WILL PROVIDE ESSENTIAL LIFELINES TO THE UNINSURED, UNDERINSURED AND SMALL EMPLOYERS (FEWER THAN 50 EMPLOYEES) ARE ALREADY IN PLACE OR IN THE DEVELOPMENT STAGE. TO ENSURE THEIR SUCCESSFUL IMPLEMENTATION, AS WELL AS PRODUCE A PIPELINE OF INNOVATIVE SOLUTIONS, THE BUSINESS SECTOR MUST STEP UP AND PLAY A VITAL ROLE.

You can help make a difference in our community by supporting the types of organizations profiled in this report; collaborating with leaders of education- and health-based community initiatives; and contacting your legislator with the message to "stop shifting healthcare costs to the business sector." By working together, we can build an infrastructure for the Houston and Harris County region that's capable of achieving a healthy, productive workforce, which, in turn, will give us greater ability to achieve lower healthcare costs, attract corporations and recruit top talent. For more information on how you or your organization can get involved, call 713.448.5983.

Innovate
Integrate
Influence
Get involved.

By working 
together,
We can build an
infrastructure for the
Houston and Harris

County region that's
capable of achieving a
 **healthy,**
productive workforce.



713.222.CARE

memorialhermann.org