



2005 Annual Report



The Heart of Healing

*"Nothing worthwhile ever happens by itself,
but as a result of hearts set afire."*

HEART OF HEALING

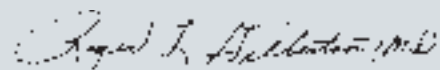
A historic marker on Broadway, near our new main entrance, showcases a quotation I appreciate a great deal: "Nothing worthwhile ever happens by itself, but as a result of hearts set afire." Stated years ago by one of our founding physicians, this quote speaks to us today.

This past year, we reached another milestone in our nearly 100-year history – a milestone that could not have been achieved without people who have passion for what they do – people with hearts set afire. In 2005, we celebrated the opening of a new main entrance, a new Heart Center and the first phase of MeritCare Children's renovation and expansion. You'll read more about these projects in the following pages.

"Hearts set afire" move us forward, but it's the "heart of healing" that infuses compassion into every moment, in every MeritCare location. The heart of healing is felt in the touch of a caregiver's hand. It's heard in the gentle, reassuring voice that asks, "How are you feeling today?" It's seen in the team of experts who join together to restore health when illness or injury strike. The heart of healing beats in the caring people of MeritCare.

I would like to thank all of you for your ongoing support this past year. It has indeed been a year of achievement, but our commitment does not stop here. In the years to come, we will continue to take the steps needed to provide high quality, compassionate, respectful care to the people of our region. Our mission to improve the health and quality of life of the people we serve will continue to guide us for generations to come, keeping us steady, strong and focused. A mission that exudes life, it is a mission best lived with a heart of healing.

Sincerely,



Roger L. Gilbertson, MD
President and CEO





CONNECTING

Specialized care centrally located, regional primary care clinics for easy access, state-of-the-art technology and treatments, environments that promote health and well-being, systems that result in highly coordinated care – all make MeritCare a premier place of healing. But without a doubt, the true heart of healing resides in our staff. Our mission to improve the health and quality of life of the people we serve could not be achieved without the combined efforts of our over 6,200 associates in more than 40 locations. With their professionalism, skills and genuine caring, they, moment by moment, touch the lives of patients, families and visitors.

Delivering Quality Care

Quality care comes about when our employees work together as a team, promptly and accurately diagnosing problems, pursuing the correct course of treatment, educating the patient and family, then following up appropriately. At MeritCare, we not only track this information, we publish it. This past year, for the first time, we published explanations of several quality reports online at meritcare.com, including information from the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), Centers for Medicare & Medicaid Services (CMS) and BlueCross BlueShield of Minnesota, just to name a few. The public can use these reports to help them in making health care decisions. These reports also reflect our employees' commitment to providing excellent health care that meets – and often exceeds – standards. Dedication to quality ensures we continue to receive accreditations as well as awards, including the VHA 2005 Leadership Award for Clinical Excellence in Heart Care.

On a related note, a recent national study ranked North Dakota #1 in the country in terms of value – that is, providing the highest quality for the lowest cost. In contrast, facilities ranking low in value provided marginal quality at high cost. This national standing is the direct result of the commitment North Dakota providers, including the ones at MeritCare, have to delivering quality care.

Pursuing Service Excellence

This past year, we continued our commitment to service excellence – a principle that will continue to gain momentum in the years to come. Simply put, service excellence happens when we put ourselves in the shoes of another, whether a patient, family member or coworker. Service excellence happens when we ask ourselves, "If this were me, how would I want to be treated?" Examples abound: A doctor takes the time to answer a worried patient's questions, a housekeeper notices a patient is getting much-needed rest so comes back later to clean the room, a receptionist makes an extra effort to coordinate appointments for an out-of-town patient, a nurse returns shortly to make sure a patient is still comfortable, a maintenance person checks once more to make sure the walkway is free of ice. All of these point to the difference committed employees can make.

Service excellence also encompasses how staff treat one another – a significant factor in how we as an organization are perceived by patients, families and visitors. Offering a helping hand, giving positive feedback, extending the common courtesies of "please" and "thank you" – these seemingly small actions go far in creating a friendlier, more pleasant environment for those who work here and those who receive care here.

Providing Highly Coordinated Care – Together

Well over a decade ago, when our hospital and clinic merged to become one integrated organization, we set the stage for improved coordination of care. We knew patients would benefit if they could access one unified organization for both their outpatient and inpatient needs. This has proven true.

One area where we as an integrated organization have excelled is the implementation of the electronic patient record (EPR). Today, all MeritCare patients have their medical record online, contributing to more efficient, complete care no matter where they receive it. In addition, the Picture Archive Communication System (PACS) allows for the instant transfer of digital imaging studies from one work station to another. It's not surprising MeritCare, for the seventh year in a row, was named "Most Wired" by *Hospitals & Health Networks* magazine. The award recognizes hospitals that successfully use technology to enhance patient care and quality.



GROWING

After several years of planning and three years of construction, the largest building project in MeritCare's 97-year history is complete. The project set out to achieve three goals: make our downtown campus in Fargo more accessible and easier to navigate, create a healing environment that welcomes and supports patients and families and design work areas to better accommodate today's – and tomorrow's – technologies, systems and approaches to care.

New Main Entrance and North Addition

For patients, families and visitors, the convenience begins with easy parking. A two-tier parking deck near the new main entrance provides 440 parking stalls. Once inside, our guests feel the warm welcome of a comfortable, spacious, light-filled lobby. Here they're greeted by staff who further direct them to their destination, assisting them and answering any questions they may have. The new main entrance serves both the clinic and hospital, providing easy access to the entire facility.

The new north addition also includes the new Day Unit – 30 private rooms for patients undergoing short-stay tests, procedures and surgery, a relaxing second-floor family area with a fireplace, the "Bean Cuisine" coffee bar, a Consumer Health and Business Center, an expanded gift shop and much more.

MeritCare Heart Center

Also located in the new north addition, the four-level MeritCare Heart Center brings together, in one convenient setting, the many components needed to provide exceptional heart care: an experienced and complete team of experts and support staff; advanced technology; state-of-the-art treatments based on national standards; a comfortable, well-equipped facility; an organized, coordinated approach to heart care, including

individualized care plans; an emphasis on patient and family education; and a philosophy that puts patients' needs first. Nationally recognized as a top heart center, we offer patients from throughout the region the full spectrum of heart care – prevention, diagnosis, treatment, rehabilitation and follow-up care.

We know, too, what a critical, often stressful time this can be for patients and families. For this reason, we focus on service-oriented habits, practices and systems. The result? Patients and families experience "heartfelt hospitality in a healing environment." No matter what type or stage of heart disease, no matter where in the region they live, people can be confident MeritCare Heart Center is here to meet their needs.

ENCHANTING

"Not so long ago, a very special place for children was created: the village of Laffalot. It's a place bursting with whimsy, where children with special health care needs come with their families. A place that helps them feel safe, secure and joyful... and helps them live happily ever after." This past year, we completed Phase I of MeritCare Children's expansion and renovation: the redesigned MeritCare Children's Hospital, specifically the Pediatric Unit and Pediatric Intensive Care Unit. A regional anchor in children's specialized care for more than 30 years, today's MeritCare Children's Hospital features a fantasy-village theme to engage and amuse young children, taking their minds off their medical problems and helping them heal. Private, child-friendly rooms allow parents to comfortably stay near their child. And well-designed patient areas keep medical equipment out of children's view, yet readily accessible to staff.

This past year, MeritCare Children's Southwest, our clinic dedicated to pediatrics, underwent renovation, too, and was the

first location to feature the new fantasy-village theme. In 2006, we expect to complete Phase II of the MeritCare Children's project: the renovation and expansion of MeritCare Children's Hospital's Neonatal Intensive Care Unit, another specialized service in high demand in the region.

SOOTHING

Whether they're walking down a hallway, resting in a hospital room, relaxing in the Healing Garden or sitting in the lobby with a cup of coffee, we want people to feel calm, peaceful and ready to heal. MeritCare's renovation successfully blends the powers of light, nature, peacefulness, family and friends, art and music to create an environment of healing – an environment that meets the needs of the whole person: body, mind and spirit. You see it in the calming colors and textures, the natural lighting, the sound-absorbing material that promotes quiet and rest, the well-chosen artwork that relaxes the mind, the comfortable places to gather and relax, and the new ways of doing things that put the patients' needs, comfort and choices first.

Throughout MeritCare, as we move ahead in renovating other areas, we will continue to advance a healing environment. This enlightened approach to medical care can bring about several benefits – reduced anxiety and confusion for patients and families, more informed decision-making, shorter hospital stays, decreased need for pain medication, lower blood pressure and a better overall health care experience. In the hospital environment alone, research indicates artwork and music can help patients deal with their illnesses more effectively, helping them return to their everyday lives sooner.





STRENGTHENING

For countless individuals and families throughout the region, MeritCare translates to high quality care available locally. Throughout eastern North Dakota and northwestern Minnesota, our 26 regional primary care clinics meet the ongoing health needs of people of all ages. But they do more. Regional clinics weave a healthy balance in the community's economic and social fabric, contributing to the community's strength and vitality. We dedicate resources to our regional clinics for renovations, technology upgrades and in some cases, hospital management to help keep the local hospital open and viable. Another important role of regional clinics is the convenient access they provide when patients need a higher level of care. MeritCare in Fargo offers the full range of specialty services, and when time is critical, MeritCare LifeFlight can quickly airlift patients from anywhere in the region.

This past year, MeritCare expanded its regional presence with the addition of MeritCare Ottetail, a new clinic serving the health needs of people in Ottetail, Minn., and the surrounding area. We also took steps to make dialysis care more convenient for regional patients by enhancing outpatient dialysis units in the Minnesota communities of Bemidji, Detroit Lakes and Morris as well as adding a new location in Red Lake. And for those in the region who have conditions that require ongoing monitoring and medication adjustment, we now offer anticoagulation clinics conveniently located in Valley City, Wahpeton, Jamestown, Perham and Ottetail.

REACHING OUT

Our mission to improve the health and quality of life of the people we serve goes a step further; we also reach out to meet the broad health needs of communities. As a not-for-profit system, we take seriously our community-benefit responsibility. Always, we begin with questions: What is the need? What is currently in place to meet the need? What would truly help? We strive to identify community needs beyond basic health care, then respond to them, aiming for a positive, life-enhancing difference in the community.

Our community-benefit contributions take several paths. We partner with others in community programs, collaborate with community service organizations, provide charity care, help ensure access to advanced medical technology, educate the public on safety and health issues, participate in medical education and more. We also offer a Community Connections program, a group of community-focused initiatives specifically intended to devote resources and energy to improve the quality of life for those we serve. Examples include the Parish Nurse Ministry Program, Living Well Workshop and three youth-focused programs: Adopt a School at Roosevelt Elementary School in Fargo, Celebrate Kindness and Youth Medical Experience.

In all the communities we serve, we do what we are best known for: help ill and injured people recover so they can return to their families, jobs and productive lives. Every day, we strive to use our resources wisely and for the benefit of all.

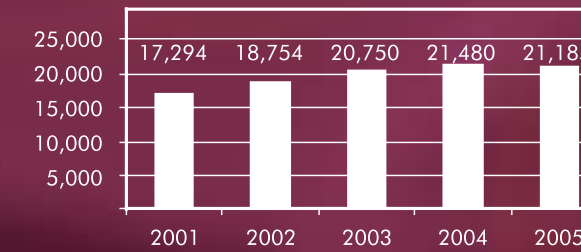


MeritCare Health System and Subsidiaries Financial Summary

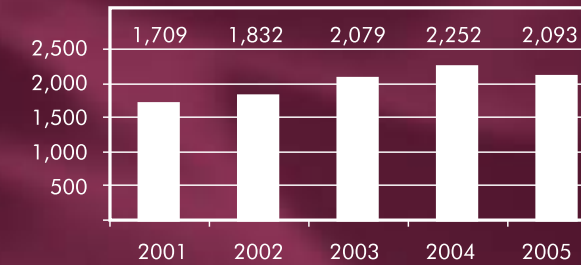
For the years ended June 30, 2005 and June 30, 2004 (in thousands)

	2005	2004
Assets		
Current Assets	\$188,845	\$195,223
Property, Plant and Equipment	239,012	214,453
Restricted and Other Assets	153,579	134,211
Total Assets	\$581,436	\$543,887
Liabilities and Net Assets		
Current Liabilities	\$103,980	\$88,837
Long-Term Debt and Deferred Liabilities	165,131	163,961
Total Liabilities	269,111	252,798
Net Assets	312,325	291,089
Total Liabilities and Net Assets	\$581,436	\$543,887
Revenues		
Net Revenues from Patients	\$576,647	\$538,165
Non-Operating and Other Operating Revenues	37,838	36,173
Total Revenue	\$614,485	\$574,338
Expenses		
Salaries and Benefits	\$373,869	\$344,251
Supplies, Purchased Services and Other	169,786	159,638
Depreciation, Occupancy and Rentals	50,333	47,217
Total Expenses	\$593,988	\$551,106
Revenue in Excess of Expenses	\$20,497	\$23,232
Changes in Unrealized Investment Gains (Losses)	(267)	(858)
Transfers from (to) Restricted Assets and Other	1,573	737
Increase in Unrestricted Net Assets	\$21,803	\$23,111
Community Benefit	\$39,696	\$32,882

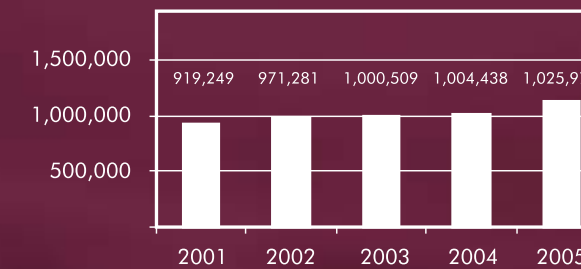
Hospital Admissions



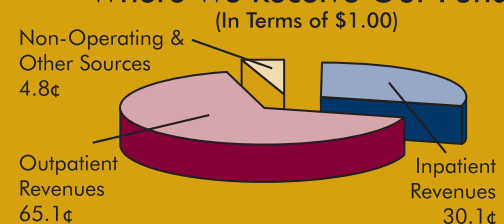
Births



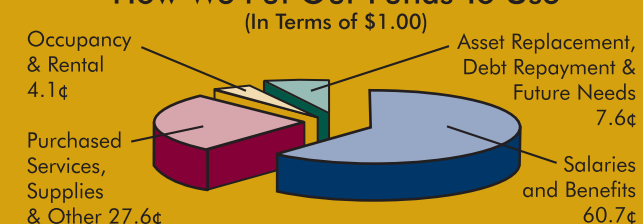
Clinic Appointments



Where We Receive Our Funds



How We Put Our Funds To Use



MeritCare at a Glance

- Service area spans 250 miles west to east; from Jamestown, N.D. to Bemidji, Minn.
- Largest private employer in North Dakota
- Employs 6,254 individuals; 5,425 full-time equivalents
- 16 locations in Fargo/Moorhead/West Fargo
- 17 regional clinics in Minnesota
- 9 regional clinics in North Dakota
- 500 volunteers
- 1,000 LifeFlight transports per year
- MeritCare subsidiaries
 - Child Development Center
 - F-M Ambulance
 - Healthcare Environmental Services, Inc.
 - MeritCare Foundation
 - MeritCare HealthCare Accessories
 - Agassiz Assurance
- Largest hospital in North Dakota — 583 beds at two locations
- Over 21,000 hospital admissions per year
- Over 43,000 visits per year to the Emergency Center (Level II trauma)
- Over 2,000 births per year
- 26 surgical suites
- Over 17,000 surgical cases per year
- Largest medical group practice in North Dakota
- 400 physicians¹
- 36 other medical providers²
- 163 physician assistants & advanced practice nurses³
- 73 medical specialties
- Over 1.4 million medical group patient visits per year
- 3 walk-in clinics
- Over 106,000 walk-in clinic visits per year

¹ - Includes MD, DO, OD, DMD and DPM

² - Includes DC, PhD, PsyD, EdD and AuD

³ - Includes PA, NP, NNP, FNP, CPNP, CRNA and CNS

MeritCare Hospital

380 adult and pediatric licensed beds

- Includes a 56-bed Children's Hospital consisting of a 24-bed level III neonatal intensive care unit, 8-bed pediatric intensive care unit and 22 general pediatric beds
- Excludes 40 Family Birth Center bassinets

MeritCare South University

203 adult licensed beds

- Includes 33 transitional care beds



2005 Board of Trustees and Corporate Officers

Front Row (left to right): John Jambois, Treasurer; Tom Dawson, Chair; Wayne Gadberry, Vice Chair; Nancy Jordheim, Secretary

Back Row (left to right): Ellen-Earle Chaffee, PhD; Pamela Anderson; Steffen Christensen, MD; Roger Gilbertson, MD, President/CEO; Steven Clemenson, MD; Jane Sinner; David Glatt, MD; Jack Reynolds, PhD

Not Pictured: Philip Boudjouk, PhD; Lauris Molbert; Timothy Monson, MD; Roxanne Newman, MD; James Ziglar

2005 Administrative Staff

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President/CEO

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Bruce Pitts, MD
Senior Executive

Gregory Post, MD
Senior Executive

Doug Vang
Senior Executive

Evelyn Quigley
Senior Executive

Paul Richard
General Legal Counsel

Lisa Carlson
Chief Financial Officer



Legend:

- H Hospital
- Clinic
- ▲ Dialysis
- ◆ Home Care
- HealthCare Accessories
- ⊠ Hospital Management

