NEW CREATION
CATHOLIC HEALTH INITIATIVES

A spirit of innovation, a legacy of care.

so whoever is in Christ is a new creation: the old things have passed away; behold, new things have come...so we are ambassadors for Christ, as if God were appealing through us.

2 Corinthians 5: 17, 20
Dear Catholic Health Initiatives Family and Friends:

In Christ, we celebrate Catholic Health Initiatives as a New Creation.

Creating the organization that is now Catholic Health Initiatives from the vision of our foundresses and the commitment of their health system leaders is an extraordinary experience for all of us. Our first months together have been filled with a wondrous sense of discovery and heartfelt enthusiasm.

The Board of Stewardship Trustees provides courageous leadership to our emerging organization. Deliberations and decisions encompass mission and vision, new ministries, healthier communities, leadership development and financial stewardship. Just as the three predecessor systems came together in the spirit of unity and faith to establish this New Creation, so, too, has the Board of Stewardship Trustees and leadership come together with a spirit of openness and trust, guided by the ministry which inextricably links every one of us to this New Creation.

St. Paul reminds us in 2 Corinthians, the old things have passed away. Many of us have participated in the development and maturation of the previous systems. Over the course of time, we may have developed a deep appreciation for the charism and ministry of a particular congregation. Now, through Catholic Health Initiatives, we are all part of a beautiful tapestry that weaves our individual and collective gifts like brilliant golden thread throughout this ministry.

We are particularly proud of the impressive list of accomplishments of Catholic Health Initiatives during its first 18 months. These accomplishments are made possible through the unwavering commitment of leadership and staff at every level of the organization. This has been a time of tremendous joy and trepidation. While we are ever faithful to the inspiring legacy of health care that is our heritage, we have few models that can be invoked to substantiate the spirit of innovation that is so essential for Catholic Health Initiatives to create healthier communities. In a sense, every day, for every one of us, is a New Creation.

Walking with Christ in this ministry is exhilarating and inspiring. We hope you enjoy learning about Catholic Health Initiatives. We are grateful for your prayers and support. For truly it is a gift of God that allows us to be part of this New Creation.

Sincerely,

Maryanna Coyle, SC
Chairperson

Patricia A. Cahil, JD
President and
Chief Executive Officer
MISSION

The Mission of Catholic Health Initiatives is to nurture the healing ministry of the Church by bringing it new life, energy and viability in the 21st century. Fidelity to the Gospel urges us to emphasize human dignity and social justice as we move toward the creation of healthier communities.

To fulfill this Mission, Catholic Health Initiatives, as a values-based organization and in partnership with laity and others, will:

- Assure the integrity of the ministry in both current and developing organizations and activities;
- Research and develop new ministries which integrate health, education, pastoral and social services;
- Promote leadership development throughout the entire organization;
- Advocate for systemic change with specific concern for persons who are poor, alienated and underserved; and
- Steward resources by general oversight of the entire organization.

VISION

Catholic Health Initiatives’ Vision is to create a national Catholic ministry which will live out its Mission by transforming traditional health care delivery into integrated networks and creating new ministries that promote healthy communities.

ACCOMPLISHMENT

- Early in 1997, the Board of Stewardship Trustees and Senior Management developed a three-year strategic plan to provide overall direction for Catholic Health Initiatives, its regions, market-based organizations and subsidiaries. The Core Strategies of the Strategic Plan focus attention and resources over the next three years to carry out effectively Catholic Health Initiatives’ Mission and Vision.

Established in 1996, Catholic Health Initiatives is now the largest Catholic, not-for-profit health care system in the country. Dedicated to continue and extend the healing ministry of Jesus Christ, Catholic Health Initiatives is sponsored by 11 congregations of women religious.

The sponsorship model of Catholic Health Initiatives makes it unique among Catholic health care organizations, since it represents a truly equal religious-lay partnership. The Board of Stewardship Trustees of Catholic Health Initiatives also serves as the members of the canonical corporation, or public juridic person, of Catholic Health Initiatives, named Catholic Health Care Federation.

With headquarters in Denver, Colorado, Catholic Health Initiatives also has a national office in Cincinnati and regional offices in Denver, Louisville, Minneapolis, Omaha, Philadelphia and Tacoma.

The Mission and Vision statements are an expression of the hopes and expectations of the founding organizations to advance and strengthen the Catholic health ministry into the next century.
Core Strategies and Accomplishments

Distinctive Culture
Create a distinctive Catholic Health Initiatives' culture based on shared mission, vision and values.

As a ministry of the Church, Catholic Health Initiatives is rooted in Catholic moral traditions and Gospel values, and the charisms of its sponsoring congregations. Catholic Health Initiatives' values will form the basis of a new organizational culture which will clearly distinguish Catholic Health Initiatives at the national level and in the communities it serves. This "Catholic Health Initiatives" difference will be expressed in new models of care and organizational behaviors which embody a spiritual dimension. Mission-focused, values-based leadership will be assured through a comprehensive leadership formation program. All employees of Catholic Health Initiatives will be empowered to use their unique gifts in service to Catholic Health Initiatives' ministry.

Accomplishments
- Catholic Health Initiatives created and began the implementation of a national corporate identity program, including a positioning statement, theme line, visual identity and graphic standards. Under the branding strategy, all Catholic Health Initiatives' facilities and wholly owned subsidiaries will use the Catholic Health Initiatives symbol and system logotype in conjunction with their individual name. As part of the introduction of the new corporate identity program, Catholic Health Initiatives produced the film, A Spirit of Innovation, A Legacy of Care, which highlights the founding, vision, mission and direction of the organization.
- In mid-1997, Catholic Health Initiatives launched an organization-wide effort to identify core values. Every level of the organization was involved in the process. The core values will be introduced in May 1998 at the Catholic Health Initiatives' National Leadership Conference.
- In cooperation with 15 Catholic health care systems and the Catholic Health Association, Catholic Health Initiatives formed The Partnership for Catholic Health Ministry Leadership Development to further the development of competent, visionary leadership for the Catholic health care ministry of the future.
In November 1997, the Board of Stewardship Trustees approved Standards of Conduct for Catholic Health Initiatives as part of the organization’s commitment to the highest standards of business ethics and integrity. A Corporate Responsibility Program throughout Catholic Health Initiatives was established in 1997, and a corporate responsibility officer was appointed at each facility and for the national office.

2. Growth

Strengthen and extend Catholic Health Initiatives’ national presence through planned strategic growth at the national, regional, and market levels.

Catholic Health Initiatives will continue to grow to advance the Catholic health ministry in the United States. This growth will occur at multiple levels of the organization through mergers, partnerships, and other collaborative ventures which enhance Catholic Health Initiatives’ strategic position, or support its mission and the Catholic health ministry. In pursuing continued growth, Catholic Health Initiatives will provide recognized leadership in rural health care development, and will emphasize linkages with community-based organizations, including other members of the Catholic community, such as Catholic Charities, parishes and schools.

ACCOMPLISHMENTS

- The Sisters of Charity of Nazareth Health System, Bardstown, Kentucky, consolidated with Catholic Health Initiatives in September 1997. The Sisters became the eleventh sponsoring congregation for Catholic Health Initiatives. The new Southeast Region includes eight hospitals located in Arkansas, Kentucky and Tennessee. The merger added $750 million to Catholic Health Initiatives’ revenue and assets.

- Catholic Health Initiatives signed a letter of agreement to add the Franciscan Sisters of the Immaculate Heart of Mary of Hankinson, North Dakota, as co-sponsors. The proposed $10 million merger will add Oakes Community Hospital in Hankinson, North Dakota, and eight clinics throughout the Upper Midwest Region to Catholic Health Initiatives.

- In November 1997, St. Vincent Infirmary Medical Center of Little Rock, Arkansas, signed a letter of intent to acquire Columbia Doctors Hospital and three Columbia family clinics.

- Catholic Health Initiatives developed models of affiliation with diocesan health care providers and community facilities to expand the options under which Catholic Health Initiatives’ facilities and organizations may partner and collaborate more effectively with other providers of health services and community-based health programs.
3. Innovative Systems of Care

Develop prominent market-focused systems of care which embody a distinctive spiritual dimension in active partnership with physicians, service providers and other organizations.

Catholic Health Initiatives will develop innovative care management in each of the markets it serves. Drawing upon its traditions, Catholic Health Initiatives will collaborate with others to develop a new model of spiritual care that responds to the whole person and is rooted in Christian caring and compassion.

This model will be extended across the continuum of care. Physicians will have a central role as partners in this effort. Strategic partnerships with other values-based organizations will form organized systems of care capable of managing the health and wellness needs of enrolled populations and communities.

ACCOMPLISHMENTS
• Catholic Health Initiatives is one of six sponsors and participants in the national project, Supportive Care of the Dying: A Coalition for Compassionate Care. The project is designed to improve the quality of care for individuals who are dying, for their families and for caregivers.

4. Advocacy

Become a nationally recognized advocacy force for social justice and systemic change.

Catholic Health Initiatives will assume a leadership role in addressing systemic change, health, ethical and social policy issues, and the needs of the poor and disadvantaged at the national, state and local level.

Catholic Health Initiatives will also assure that these issues are identified and appropriately addressed within its own organizations. Catholic Health Initiatives will join Catholic and other values-based organizations to enhance the results of its efforts wherever appropriate.

ACCOMPLISHMENTS
• In the spring of 1997, Catholic Health Initiatives provided financial support to help flood victims in Minnesota and North Dakota. Money was targeted for Catholic Health Initiatives' employees and clients whose homes and property were lost or damaged.
• Catholic Health Initiatives contributed financial support to assist in the campaign against Oregon's Physician Assisted Suicide Initiative.
5. Preeminent Performance

Achieve preeminent clinical, service, operational and financial performance throughout the organization.

Catholic Health Initiatives will establish high standards for performance and promote superior systems and processes across the organization. Common measurement systems will facilitate benchmarking. Innovative information management strategies and the recognized interdependence of all Catholic Health Initiatives' organizations will accelerate the sharing of best practices, expertise and technology. Catholic Health Initiatives will exercise responsible stewardship, assure access to capital and promote effective allocation of resources across the organization.

ACCOMPLISHMENTS

- Catholic Health Initiatives created a balanced scorecard which includes clinical and financial indicators. The patient satisfaction component of the balanced scorecard was piloted during 1997.
- Medical leaders throughout Catholic Health Initiatives convened to address protocols, guidelines, outcomes, quality-of-care issues, profiling, credentialing and managed care. One of the major goals of Catholic Health Initiatives is to more fully integrate physicians into the planning and operational oversight responsibilities of the regions and develop a medical management network.
• In equal partnership with the Daughters of Charity National Health System and Catholic Healthcare East, formerly Eastern Mercy Health System, Catholic Health Initiatives joined NewCap Insurance Company, Ltd., an offshore excess insurance captive company established in 1995. Through NewCap, Catholic Health Initiatives is virtually independent of the commercial insurance market and has greater flexibility to accommodate joint venture partners.
• Catholic Health Initiatives merged two insurance companies and an insurance trust into one new corporation named First Initiatives Insurance, Ltd. During its first 18 months, Catholic Health Initiatives realized a $1.9 million reduction in the cost of insurance premiums. Consolidation of all workers compensation programs is projected for January 1998.
• Catholic Health Initiatives entered into an exclusive agreement with Catholic Materials Management Alliance (CMMA), a consolidated corporate purchasing program owned by five Catholic health care systems — Alverno Administrative Services of Mishawaka, Indiana; Catholic Health Initiatives; Daughters of Charity National Health System, St. Louis, Missouri; Franciscan Health Services of Albany, New York; and Holy Cross Health System, South Bend, Indiana. CMMA represents more than 250 facilities with more than 40,000 beds. The purchasing agreement included medical/surgical products, pharmacy, equipment, lab, food, radiology and alternate care.
In July 1997, CMMA signed a letter of intent to consolidate with the Sisters of the Sorrowsful Mother-Diversified Health Services, representing seven Catholic health care systems. The combined group purchasing volume of the new organization will be nearly $2 billion, representing 389 acute-care hospitals and long-term care facilities with approximately 62,000 beds in 35 states.
• As equal owners, Catholic Health Initiatives and the Daughters of Charity National Health System (DCNHS) formed the Catholic Healthcare Audit Network to provide internal auditing and compliance services to Catholic Health Initiatives and DCNHS facilities and organizations.
• Catholic Health Initiatives achieved its financial target for the first year of operation with a $254 million bottom line.
• Catholic Health Initiatives consolidated its investments into three separate funds in July 1997: operations, the insurance company, and the pension plan. With market performance and a portfolio size of $2.5 billion, Catholic Health Initiatives has realized substantial gains. Savings are earmarked for the facility from which the investment came. In 1998, Catholic Health Initiatives will develop a Social Responsibility Investment Policy.
In October 1997, more than 100 leaders from across Catholic Health Initiatives participated in a visioning workshop to collaborate on the development of an information technology vision and plan. The vision and plan define the information technology needed to support the core strategies of Catholic Health Initiatives.

Catholic Health Initiatives began implementation of a central cash management program to improve returns and simplify processes.

6: Community Health

ACCOMPLISHMENTS

- During 1997, Catholic Health Initiatives distributed approximately $1.3 million in grants through the Mission and Ministry Fund to 18 organizations within the Catholic Health Initiatives family to develop innovative programs to improve the health of communities where their facilities are located. This is one example of how Catholic Health Initiatives is working to create systemic change that supports the creation of healthier communities and integrating the underserved into the continuum of care. Mission and Ministry Fund grants will be awarded annually.

- Additionally, to help facilities and service organizations better understand the concept of promoting healthy communities, Catholic Health Initiatives sponsored a Mission and Ministry Fund Conference in October 1997. The following programs were selected to receive support through the Mission and Ministry Fund in 1997.

1997 Mission and Ministry Recipients

Catholic Health Initiatives
Eastern Region
Aston, Pennsylvania
Combined Ministry Teams with Parish Nursing
Lake Wood Health Center
Baudette, Minnesota
Assisted Living for the Elderly
Mercy Medical Center
Nampa, Idaho
Parish Nurse Program
Mercy Medical Foundation
Williston, North Dakota
Comprehensive Wellness Program
Mt. St. Joseph Residence and Extended Care Center
Portland, Oregon
Feasibility Study for Low-income Housing
Our Lady of the Way Hospital
Martin, Kentucky
Teen Obesity and Pregnancy Programs
Sisters of St. Francis
Portland, Oregon
Programs for HIV-positive Women and their Children
St. Anthony Health Services
Denver, Colorado
School-based Health Center
St. Clare Hospital/South Sound Integrated Delivery Network
Tacoma, Washington
Health Education Program for School District in Low-income Area
St. Francis Medical Center
Grand Island, Nebraska
Therapeutic Halfway House for Women
St. Francis Medical Center
Trenton, New Jersey
Parish Nurse Program
St. John's Regional Medical Center
Joplin, Missouri
Mobile Preventive Medical and Dental Care

St. Joseph's Area Health Services
Park Rapids, Minnesota
Clinical Pastoral Education Program
St. Joseph Hospital
Lancaster, Pennsylvania
Children's Health Achievement and Maintenance Program
St. Joseph Medical Center
Reading, Pennsylvania
Health Care Tracking System for Migrant Workers
St. Mary's Healthcare Center
Pierre, South Dakota
Wrap-around Program for Adolescents
St. Mary Medical Center
Langleboro, Pennsylvania
Parenting Education Initiative
Unity Family Healthcare
Little Falls, Minnesota
Youth Recreation and Activity Program
Catholic Health Care Federation
Canonical Oath

With Singular Fidelity
We, the Stewardship Board
of Catholic Health Initiatives,
accept Canonical Stewardship
of Catholic Health Care Federation,
a public juridic person
of Pontifical Right.
In keeping with Christ's
healing mission,
we pledge loyal support of
Catholic Health Care.

Benedictine Sisters of
Mother of God Monastery
Wayzata, Minnesota
Sandra Meek, OSB

Congregation of the
Dominican Sisters of
St. Catherine of Siena of
Kenosha, Inc.
Kenosha, Wisconsin
Susan Snyder, OP

Franciscan Sisters of
Little Falls, Minnesota
Little Falls, Minnesota
Rita Kraemer, OSF

Nuns of the Third Order of
St. Dominic
Great Bend, Kansas
Peggy Martin, OP

Sisters of Charity
Cincinnati, Ohio
Mary Ellen Murphy, SC

Sisters of Mercy of the
Americas, Regional
Community of Omaha
Omaha, Nebraska
Patricia McDermott, RSM

Sisters of St. Francis of
Philadelphia
Philadelphia, Pennsylvania
Madonna Marie Cunningham, OSF

Sisters of the Presentation of
the Blessed Virgin Mary
Fargo, North Dakota
Mary Margaret Mooney, PBVM

Sisters of Charity of Nazareth
Bardstown, Kentucky
Eleanor Martin, SCN

Sisters of the Holy Family of
Nazareth
Philadelphia, Pennsylvania
Michaelann Delaney, CSFN

Sisters of St. Francis of
Colorado Springs
Colorado Springs, Colorado
Clarice Gentrup, OSF

As a public juridic person, each member of the Board of Stewardship Trustees takes a solemn oath...and pledges to support, uphold and promote Catholic health care...

—Peggy Martin, OP
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Board Of Stewardship
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Marjorie Beyers, PhD
Executive Director, American Organization of Nurse Executives, Chicago, Illinois
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Vice President
Advocacy

Mark A. Streety
President
Novare, Inc.
67 Hospitals

48 Long-Term Care, Assisted Living Facilities and Residential Units

22 States: Arkansas, California, Colorado, Delaware, Idaho, Iowa, Kansas, Kentucky, Maryland, Minnesota, Missouri, Nebraska, New Jersey, New Mexico, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Washington, Wisconsin

71 Rural and Urban Communities

$5.8 Billion in Assets

$4.7 Billion in Annual Revenues

Charity Care as a Percentage of Net Patient Service Revenues: 2.5%

Operations:
Acute inpatient days: 1,765,041
Acute discharges: 351,750
Acute average length of stay: 5.0 days
Residential days: 590,051
Skilled days: 975,042
Assisted days: 135,132
Outpatient revenues as a percentage of total revenues: 38.3%

Approximately 54,000 Full-time Equivalent Employees
FACILITIES

OHIO
Cincinnati
Good Samaritan Hospital
Dayton
Good Samaritan Hospital and Health Center
Maria-Joseph Living Care Center
Samaritan Health North

Pennsylvania
Exton
Franciscan Family Care

Lancaster
St. Joseph Hospital

Langhorne
St. Mary Medical Center

Philadelphia
Nazareth Hospital
St. Agnes Medical Center

Reading
St. Joseph Living Center
St. Joseph Medical Center

Delaware
Hockessin
Care Center at Brackenville
Wilmington
Care Center at Wilmington
St. Francis Hospital

Maryland
Fowson
St. Joseph Medical Center

New Jersey
Trenton
St. Francis Medical Center

Kentucky
Bardstown
CARITAS Home Care Services

Flaget Memorial Hospital
Lexington
Saint Joseph Hospital
London
Marymount Medical Center
Louisville
CARITAS Medical Center
CARITAS Peace Center
Martin
Our Lady of the Way Hospital

Tennessee
Chattanooga
Memorial Hospital

Central Midwest Region

Iowa

Kansas

Missouri

Nebraska

Johnston
Bishop Drumm Retirement Center

Kansas
Garden City
St. Catherine Hospital

Great Bend
Central Kansas Medical Center

Missouri
Joplin
St. John's Regional Medical Center

St. John's Rehabilitation Center

Nebraska
Grand Island
Saint Francis Medical Center

Kearney
Good Samaritan Hospital

Richard H. Young Hospital

Lincoln
Saint Elizabeth Community Health Center

Nebraska City
St. Mary's Hospital

Norfolk
Skyview Villa
Residential Care Facility

St. Joseph's Nursing Home

Omaha
Alegent Health-Bergan Mercy Medical Center
Mercy Care Center
UPPER MIDWEST REGION
- Minnesota
- North Dakota
- South Dakota
- Wisconsin

MINNESOTA
Albany
Albany Area Hospital and Medical Center
Baudette
Lake-Wood Health Centers
Breckenridge
St. Francis Home
St. Francis Medical Center
Little Falls
Alverna Apartments
St. Camillus Place
St. Gabriel's Hospital
St. Otto's Care Center
Park Rapids
St. Joseph's Area Health Services

NORTH DAKOTA
Carrington
Carrington Health Center
Devils Lake
Mercy Hospital
Dickinson
St. Joseph’s Hospital and Health Center
Fargo
Friendship, Inc.
Riverview Place
Park River
St. Ansgar’s Health Center
Valley City
Mercy Hospital
Williston
Mercy Medical Center

SOUTH DAKOTA
Gettysburg
Gettysburg Medical Center
Oahe Manor
Oahe Villa
Pierre
Maryhouse
Parkwood
St. Mary’s Hospital

WISCONSIN
Lomira
Hope Nursing Home
Merrill
Good Samaritan Health Center of Merrill
South Milwaukee
Franciscan Villa
West Allis
St. Joan Antida Home

MOUNTAIN REGION
- Colorado
- New Mexico

COLORADO
Canon City
St. Thomas More Hospital and Progressive Care Center
Colorado Springs
Medallion West
Namaste’ Alzheimer Center
Penrose Community Hospital
Penrose Hospital
St. Francis Health Center

NEW MEXICO
Albuquerque
St. Francis Gardens
St. Joseph Northeast Heights Hospital
St. Joseph Rehabilitation Hospital & Outpatient Center
St. Joseph West Mesa Hospital

WESTERN REGION
- California
- Idaho
- Oregon
- Washington

CALIFORNIA
Saratoga
Our Lady of Fatima Villa

IDAHO
Nampa
Mercy Medical Center

OREGON
Baker City
St. Elizabeth Health Services
North Bend
Evergreen Court
Mercy Adult
St. Catherine’s Residence and Nursing Center
Ontario
Holy Rosary Medical Center
Pendleton
St. Anthony Hospital
Portland
Mt. St. Joseph Residence and Extended Care Center
Roseburg
Linus Oakes
Mercy Care Center
Mercy Medical Center

WASHINGTON
Bothell
Care Center at Bothell
Federal Way
St. Francis Hospital
Lakewood
St. Clare Hospital
Tacoma
Care Center at Tacoma
Medalia Healthcare (Primary Care)
St. Joseph Medical Center
CATHOLIC HEALTH INITIATIVES

A spirit of innovation, a legacy of care.

So whoever is in Christ is a new creation: the old things have passed away; behold, new things have come...so we are ambassadors for Christ, as if God were appealing through us.

2 Corinthians 5: 17, 20
FINANCIAL REPORT

1997

CATHOLIC HEALTH INITIATIVES

A NEW CREATION
CATHOLIC HEALTH INITIATIVES

A spirit of innovation, a legacy of care.
The financial statements presented here cover Catholic Health Initiatives' first full fiscal year, which ended June 30, 1997.

Catholic Health Initiatives' mission-based organizations offer a variety of services, including

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Catholic Health Initiatives was formed on April 30, 1996, from the three predecessor systems' financial statements. Information is included for the consolidated, comparative financial information.
Balance Sheet

The Catholic Health Initiatives balance sheet contains the assets and liabilities of all market-based organizations and facilities, the regional and national offices, and two wholly-owned subsidiaries — First Initiatives Insurance, Ltd., an off-shore captive insurance organization, and Novare Services, Inc., a for-profit clinical equipment management and accounts receivable collection organization.

Current assets, which increased significantly during fiscal year 1997, include cash and equivalents and net accounts receivable. Although cash and equivalents decreased slightly, total unallocated cash and liquid investments increased to $1.4 billion, which represented 139 days of cash. Total unallocated cash and liquid investments include cash designated by the Board of Stewardship Trustees and management for future needs. An increase in net accounts receivable, which includes both patient and other accounts, caused a rise in days of revenues in accounts receivable to 62 days. Most of the increase was a result of efforts to consolidate business offices and upgrade information systems in several regions.

There was modest growth both in net property and equipment and in other assets during fiscal year 1997. Management has been careful to invest prudently in fixed assets in light of changing healthcare delivery and financing trends.

Current liabilities increased modestly during fiscal year 1997. The majority of self-insured reserves and other liabilities relates to First Initiatives Insurance, Ltd. When it was created in January 1997, the combined insurance reserves of the three predecessor systems were reevaluated based on an actuarial review. Assets whose use is limited include $266 million held for insurance purposes.

Long-term debt declined slightly in fiscal year 1997. At June 30, 1997, the debt-to-capitalization ratio was 33 percent, a level which management believes is sound. Total net assets increased significantly. Much of the increase was from unrealized investment portfolio gains; assets given by donors for specific purposes also increased. This balanced growth in net assets is indicative of the balance in Catholic Health Initiatives' financial performance. It also is important to note that net assets, which represent the equity of the organization, were more than one-half of total liabilities and net assets at June 30, 1997.
Statement of Operations

Total operating revenues increased 7 percent during fiscal year 1997. This was a relatively modest growth rate and included a partial year for an additional facility in Pennsylvania. Operating expenses increased 8 percent. This level of increase was of concern in view of the lesser growth of revenues. Labor and supplies represent nearly two-thirds of Catholic Health Initiatives' operating costs.

Patient bad debts increased significantly during the fiscal year due to accounts receivable management issues. The methodologies used to distinguish between bad debts and charity care were not consistent among the predecessor organizations, nor were there common approaches to the development of accounts receivable reserves. This appears to be reason for part of the year-to-year disparity in bad debts. Interest expenses decreased due to favorable variable interest rates and the slight decrease in total debt.

The operating margin in fiscal year 1997 was 4.6 percent, which was below the prior year. Efforts to apply consistent financial policies impacted the reporting of expenses to some extent. Implementation of policies for the reporting of contract labor, capitalization of expenses, development of reserves, amortization of intangibles and like items were implemented in fiscal year 1997 and caused increased expenses compared to prior reporting.

Non-operating gains, net, increased significantly in fiscal year 1997 due mostly to performance of investment portfolios in centrally-managed programs. Non-operating gains include the realized portions of investment gains and losses. During the fiscal year, equity and fixed income markets were extraordinary; such performance should not be expected in future periods. Non-operating activities also include gains and losses from medical office buildings, certain shared physician and other ventures. Restructuring and other losses decreased substantially in fiscal 1997, as expected following the completion of the consolidation which formed Catholic Health Initiatives in the previous fiscal year.

There was a significant increase in minority partner interest in affiliated entities. First, Catholic Health Initiatives and facilities in several regions have invested in five Karrington assisted-living facilities, all held in limited liability companies. These were consolidated for the first time in fiscal year 1997. Secondly, Catholic Health Initiatives is a majority partner in a Colorado-based joint management company, Centura. This new organization was included in the consolidated financial statements for only part of fiscal year 1996, and thus had little financial impact until its first full fiscal year of operations in 1997.

Implications for the Future

The excess of revenues over expenses for fiscal year 1997 was $254 million, a net income margin of 6.2 percent, which was a significant increase over the prior fiscal year. Fiscal year 1997 was a good initial year for Catholic Health Initiatives. The strength of the balance sheet is evident, but the results of operations have provided indication of where financial improvement is desirable. A significant margin, with a large contribution from operations, is essential to the continuing vitality of Catholic Health Initiatives.

Performance as measured by the excess of revenues over expenses must improve to continue to support the ministry. Constant attention to opportunities for operating improvement, with a never-ending focus on the future of the health ministry, is essential for Catholic Health Initiatives to be a viable health ministry in the 21st century.

Geraldine M. Hoyler, CSC
Senior Vice President
Finance and Treasury
### BALANCE SHEET
(dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$1,134,322</td>
<td>$1,037,836</td>
</tr>
<tr>
<td>Assets whose use is limited</td>
<td>1,520,058</td>
<td>1,586,414</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>1,942,440</td>
<td>1,854,486</td>
</tr>
<tr>
<td>Other assets</td>
<td>241,494</td>
<td>216,815</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$4,838,314</td>
<td>$4,495,349</td>
</tr>
</tbody>
</table>

Current liabilities
777,665
752,525
Self-insured reserves and other liabilities
248,363
261,066
Long-term debt
1,254,951
1,279,246

Net assets:

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>2,479,049</td>
<td>2,149,900</td>
</tr>
<tr>
<td>Restricted</td>
<td>78,286</td>
<td>72,872</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td>$4,838,314</td>
<td>$4,495,349</td>
</tr>
</tbody>
</table>

### STATEMENT OF OPERATIONS
(dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from patient services, net</td>
<td>$3,712,984</td>
<td>$3,511,190</td>
</tr>
<tr>
<td>Revenues from other operations</td>
<td>288,639</td>
<td>243,742</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING REVENUES</strong></td>
<td>4,001,623</td>
<td>3,754,932</td>
</tr>
<tr>
<td>Employee and physician compensation and benefits</td>
<td>2,007,534</td>
<td>1,829,626</td>
</tr>
<tr>
<td>Supplies, maintenance and services</td>
<td>1,364,386</td>
<td>1,292,427</td>
</tr>
<tr>
<td>Building and equipment depreciation</td>
<td>234,034</td>
<td>223,916</td>
</tr>
<tr>
<td>Patient bad debts</td>
<td>135,573</td>
<td>116,524</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>75,444</td>
<td>82,895</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>3,816,971</td>
<td>3,543,426</td>
</tr>
<tr>
<td><strong>EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES</strong></td>
<td>184,652</td>
<td>209,506</td>
</tr>
<tr>
<td>Non-operating gains, net of non-operating losses</td>
<td>99,214</td>
<td>78,048</td>
</tr>
<tr>
<td>Restructuring and other losses</td>
<td>(3,217)</td>
<td>(121,487)</td>
</tr>
<tr>
<td>Minority partner interest in affiliated entities</td>
<td>(26,403)</td>
<td>(9,123)</td>
</tr>
<tr>
<td><strong>NET GAIN (LOSS) FROM NON-OPERATING TRANSACTIONS</strong></td>
<td>69,594</td>
<td>(52,562)</td>
</tr>
<tr>
<td><strong>EXCESS OF REVENUES OVER EXPENSES</strong></td>
<td>$ 254,246</td>
<td>$ 156,944</td>
</tr>
</tbody>
</table>
## BENEFITS FOR THE POOR
AND THE WROADER COMMUNITY
(dollars in thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Ended June 30, 1997</td>
<td></td>
</tr>
<tr>
<td>Traditional charity care costs</td>
<td>$ 50,279</td>
</tr>
<tr>
<td>Unpaid costs of Medicaid and other indigent care programs</td>
<td>56,373</td>
</tr>
<tr>
<td>Non-billed services for the poor</td>
<td>6,615</td>
</tr>
<tr>
<td>Cash and in-kind donations</td>
<td>4,146</td>
</tr>
<tr>
<td>Other benefits to the poor</td>
<td>4,027</td>
</tr>
<tr>
<td><strong>Measurable Benefits for the Poor</strong></td>
<td>121,440</td>
</tr>
<tr>
<td>Unpaid costs of Medicare and other senior programs</td>
<td>166,101</td>
</tr>
<tr>
<td>Non-billed services for the community</td>
<td>12,318</td>
</tr>
<tr>
<td>Education and research</td>
<td>19,305</td>
</tr>
<tr>
<td>Other community benefits</td>
<td>8,900</td>
</tr>
<tr>
<td><strong>Measurable Benefits for the Broader Community</strong></td>
<td>206,624</td>
</tr>
<tr>
<td><strong>Total Measurable Benefits for the Poor and the Broader Community</strong></td>
<td>$ 328,064</td>
</tr>
</tbody>
</table>

*(Total measurable benefits for the poor and the broader community were 8.2 percent of total operating revenues for fiscal year ended June 30, 1997.)*

## STATISTICAL HIGHLIGHTS

<table>
<thead>
<tr>
<th>Description</th>
<th>1997</th>
<th>1996*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute-care discharges</td>
<td>359,099</td>
<td>351,750</td>
</tr>
<tr>
<td>Acute-care length of stay in days</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Residential-care days</td>
<td>666,087</td>
<td>590,051</td>
</tr>
<tr>
<td>Long-term-care days</td>
<td>1,008,286</td>
<td>975,042</td>
</tr>
<tr>
<td>Assisted-care days</td>
<td>138,435</td>
<td>135,132</td>
</tr>
<tr>
<td>Outpatient revenues as a percentage of total revenues</td>
<td>40.3%</td>
<td>38.3%</td>
</tr>
<tr>
<td>Number of full-time employee equivalents</td>
<td>44,653</td>
<td>45,474</td>
</tr>
</tbody>
</table>

*1996 is consolidated from the three predecessor systems’ financial statements.*
A spirit of innovation, a legacy of care.

1999 Broadway
Suite 2605
Denver, Colorado 80202
303.298.9100