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HEALTH CARE LONDON

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FINANCIAL STATEMENTS OF ST. JOSEPH'S HEALTH CARE, LONDON | Year ended March 31, 2003

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ST JOSEPH'S
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Financial Statements of
St. Joseph's Health Care, London

Year ended March 31, 2003

Message from Leroy Innanen Chair of the Resource Planning Committee

2003 Financial Statements

St. Joseph's Health Care, London (SJHC) is a very complex organization. Reflective of the significant change brought about by the Health Services Restructuring Commission in 1997, SJHC provides four major services and many more sub-services. Each of our acute/ambulatory, complex care, long-term care, and mental health care programs carry with them elements unique to each. Our $380 million operating budget is dedicated to support over 1,800 patient/resident beds and over 400,000 out patient visits. More than 5,500 staff serve the community of Southwestern Ontario and beyond from over ten different locations throughout the region. Our mission to deliver the highest level of care, within limited resources is a challenging task. Changing public needs, the rising cost of new and better technology, the tight job market for professional staff, and uncertain funding levels, all point to the next few years as being extremely complex in this organization's long and proud history.

Our health care partners are many, including London Health Sciences Centre (LHSC), as we restructure and transfer in-patient acute care services to/from LHSC. Beginning in 1999 and expecting to conclude in 2008, this process has involved extensive planning to ensure services and related resources transfer smoothly, and at the same time, sustain programs focused on the needs of our community. To-date we have seen a net reduction of $8.6 million in acute inpatient budgets at St. Joseph's Hospital.

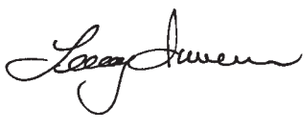
Maintaining the viability of our services today, and meeting our future commitments is our goal. In 2002/2003 we invested $9.5 million in new equipment, including the initial stages of a $3.6 million multi-year plan to upgrade our imaging capability to more precise and cost efficient digital technology. A total of $9.0 million was invested in facilities and furnishings as Parkwood Hospital saw the conclusion of redevelopment to accommodate the consolidation of rehabilitation services, in addition to other significant improvements on the site.

In planning for tomorrow, the Ministry of Health and Long-Term Care (MoHLTC) has confirmed financial support for our acute care construction plans. Investment in new or upgraded facilities at St. Joseph's Hospital, Parkwood Hospital, and the Regional Mental Health Care sites will exceed $250 million. Thanks to the ongoing generosity of the community and the financial commitment from the government, our vision for future facilities will become reality. The next major project will be seen in the fall of 2003 as more new construction work on the St. Joseph's Hospital site begins. In order to invest in our future, we need to ensure the availability of funding. To do that, we have restricted, as required, our available assets to ensure we can meet our future commitments and obligations. These restricted investments are segregated on our balance sheet ($132.6 million at March 31, 2003), and are managed by a professional investment manager under the direction of the Resource Planning Committee of our Board.

Operating cost pressures continue to exceed available funding. Our challenge this past year has been to maintain our service levels while at the same time determining the extent and types of services we can afford. The $20.6 million year-end surplus reflected in our financial statements masks an underlying concern. Included in that amount is $5.9 million of investment income, which is needed to support our capital building commitment; and $14.5 million surplus from operations, which is caused solely by a one-time unusual surplus in our mental health operations. All of our other operations incurred a combined deficit. The widening gap between funding and inflation and other cost pressures means even greater challenges for the coming year. We are facing projected operating pressures many times larger than past operating deficits. Most hospitals in the province are facing severe financial situations, and while St. Joseph's is healthier than most, we are at the point where we must make some significant choices relative to the extent of services we provide. Our Board is struggling with balancing the public's current demand for services with operating capacity, while ensuring adequate long-term investment to sustain a financially healthy organization for the future.

Our Board is well aware of the significant and complex role we have as stewards of the resources we have been given, while also being responsive to the needs of the community. We must be accountable to the government for both, and St. Joseph's is among the leaders in the province in maintaining this equilibrium.

In closing, I wish to acknowledge the significant contributions of our dedicated staff and volunteers. Their collective energies are focused on our mission to make a profound difference to the London and Southwestern Ontario community. For this, we are both fortunate and extremely proud.



Leroy Innanen

Chair of the Resource Planning Committee

Management Discussion and Analysis

From left to right: Cliff Nordal, President & C.E.O.; Jim Flett, Integrated Executive Vice President Corporate Services; Ron McRae, VP - Integrated Chief Financial Officer

Background

St. Joseph's Health Care, London (SJHC) now provides a broad spectrum of services, including acute care, rehabilitation, tertiary and forensic mental health care, complex care, veterans care and long-term care, as well as many regional specialties within each of these services. However, the journey into the future for SJHC has just begun. The vision is for SJHC to be a specialty hospital leading the non-acute services listed above, while also being a state-of-the-art acute ambulatory site, including selected surgery programs.

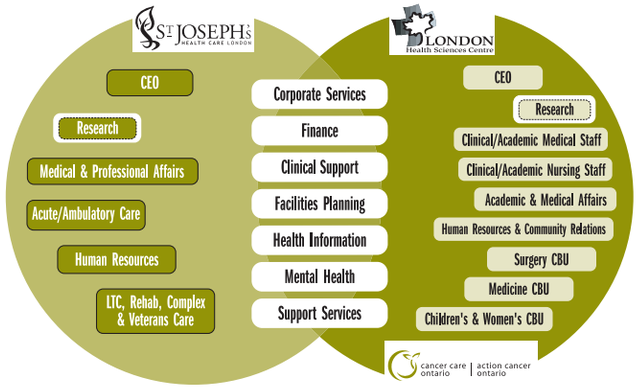
As summarized on the chart opposite we have been active on all fronts. In total, $22.9 million of funding has already been realigned across the city, for a net transfer of $8.6 million from SJHC to London Health Sciences Centre (LHSC) and $.7 million to the London Regional Cancer Centre (LRCC) since the beginning of restructuring. Minimal movement is expected in fiscal 2003/04 as we prepare facilities for the next major move (Milestone One) in the 2004/05 fiscal year. To make these moves possible, facilities have to be prepared, human resource issues addressed and, most importantly, clinical support and planning coordinated. It is an enormous challenge to move operating programs and we must thank the many staff, physicians and volunteers who have contributed to the moves that have been successfully achieved to-date.

Planning continues with our regional partners to divest a portion of our mental health programs to the surrounding counties. Transfers to Essex, Elgin, Waterloo and Norfolk regions are expected to begin in 2003/2004 and conclude in 2007.

To support the new integrated health system and movement of services, several new joint ventures, shared services, and integrated leadership positions have been implemented between LHSC and SJHC. As highlighted in the financial statements, we have three joint ventures that provide and coordinate procurement, inventory management, accounts payable, laboratory, and research activities. In addition, we have shared leadership over several services to help guide

Restructuring Milestones to date:

- HSRC Directions – June 1997
- Transfer of Acute Mental Health Services from SJHC to LHSC – April 1998
- Final HSRC Directions – June 1998
- Merger between SJHC and Parkwood Hospital – December 1998
- Transfer of:
  - Oncology Program to LHSC and LRCC – July 1999
  - Diabetes to SJHC – May 2000
  - Cardiology to LHSC – June 2000
  - Rheumatology to SJHC – Sept. 2000
  - Renal to LHSC – Jan. 2001
- Transfer of Governance of London and St. Thomas Psychiatric Hospitals to SJHC – January & February 2001
- Transfer of:
  - Ophthalmology Phase 1 to SJHC – April 2001
  - Vascular/Thoracic to LHSC – Oct. 2001
  - Ophthalmology Phase 2 to SJHC – Oct. 2001
  - ENT, Cardiology, and Endocrinology moves – Dec. 2001
  - Rehabilitation move to SJHC – Feb. 2002



Shared Executive Leadership

Exhibit 1

Milestone 1 (target June 2004)

- Emergency to LHSC
- Intensive Care to LHSC
- General Surgery to LHSC
- ENT (Head & Neck) to LHSC
- Medicine (inpatient) to LHSC
- GAU (partial) to LHSC
- Emergency related Orthopaedics to LHSC
- Operative Dentistry to LHSC
- Adult Ophthalmology to SJHC

Milestone 2 (target June 2007)

- Perinatal (High Risk Obstetrics and NICU) to LHSC Orthopaedics (Hip and Knee) to LHSC
- Family Medicine/Palliative Care to LHSC

Milestone 3 (target June 2008)

- ENT to LHSC
- Gynaecology to LHSC
- Cardiac Rehab to SJHC
- Ophthalmology (phase IV Ivey Institute offices/clinics) to SJHC
- Allergy to SJHC
- Endocrinology to SJHC

April 2003
Based on current approved MoHLTC Master Plan

our linked missions and ensure we get the best possible results from our available resources. The executive leadership is highly integrated as shown in Exhibit 1.

On top of mergers, acquisitions, restructuring, and manpower shortages, the funding issues that Ontario hospitals are experiencing provide the greatest challenge. Ontario hospitals receive the majority of their operating and capital funding from the province and recently government planning cycles have not been timely, leaving hospitals with uncertainty about their funding base until well into the fiscal period.

The Ontario Hospital Association (OHA) has reported that real hospital funding per capita was 19 percent lower in 2001/02 than in 1992. These realities are not well understood by the public and create ongoing public relations issues for hospitals.

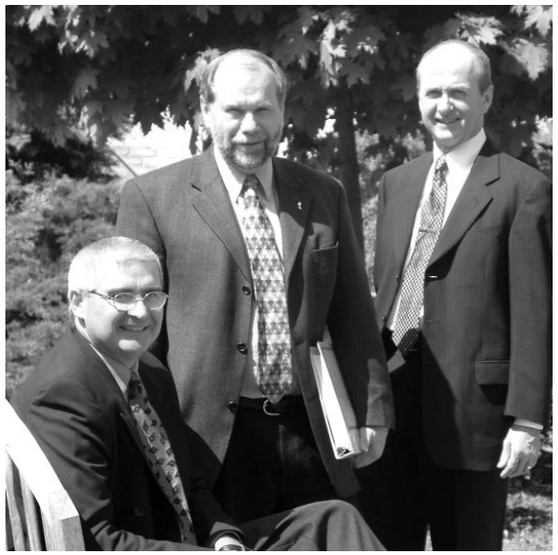
The 2002/03 fiscal year ended with an operating surplus of $14.5 million, comprised of a surplus from mental health operations, and a deficit from other operations. Operating funding received for mental health programs is restricted for use in these services during the year. The deficit in other operations is of concern and we are working with our provincial representatives to ensure the potential impact of under funding on access is fully understood.

SJHC is one of few hospitals in the province that has succeeded in maintaining a positive working capital position, which has afforded us some flexibility and time to work through the effect of restructuring and provincial planning, and minimize the impact on services.

With all the change in our industry, our Board, in cooperation with London Health Sciences Centre's Board, introduced in 2000/01 an Internal Audit Service that operates on a citywide basis, serving both hospitals. The service has been outsourced to PricewaterhouseCoopers and supports management in reviewing key systems and controls across the organizations. We are now also working with peers across the province to share knowledge gained during our respective audits. These objective assessments are important as checks on our fundamental control mechanisms as we cope with unprecedented change.

On behalf of the senior team, we would like to take this opportunity to recognize everyone who worked so hard to support our organization; the volunteers, staff, physicians, and the many donors who contributed funds to help buy needed equipment or support future construction. Without their efforts we would not be able to provide the services so much needed by our communities today and in the future. If you have any questions after reviewing the Management Discussion and Analysis that follows, please contact our offices at the numbers highlighted at the back of the document.

Overview



Senior Finance Team *Back from left to right: Bob Evans – Coordinator Fiscal Planning and Reporting; David Morton – Coordinator Financial Capital Redevelopment and Treasury; John Mockler – Director, Finance*

For the year ended March 31, 2003, we experienced an overall surplus from operations of $14.5 million, or 3.9 percent of operating costs, before investment income and net restructuring expenses (2002, $2.4 million deficit). Underlying this result is the recognition of the distinctness of our operations. The net operating result comprises a surplus from our mental health operations and a deficit from all other operations. It is important to understand that the funding envelope for mental health is separate, and to the extent our net cash surplus allows, we protect the surplus for future investment in mental health. A shortage of professional staff is the single most reason for our inability to spend the full allotment for mental health. We continue with recruiting efforts, but are unable to function at full capacity until these efforts are successful.

The pressures that have contributed to the deficit in non-mental health operations were primarily focused in our acute care and long-term care operations, as highlighted in Figure 1. Province wide shortages of nursing staff in specialized areas in addition to the impact of changing demographics, increasing costs of new and better technology, and fewer family physicians in the community all exert pressures on our operations.

In fiscal 2002/03, including investment income and restructuring expenses, there is an overall excess of revenues over expenses of $20.6 million, up from $2.1 million in 2001/02. The largest contributor to this outcome was the March 2003 announcement of significant new funding for mental health. The government undertook to ensure that funding within these operations remained whole so as to guarantee a level of investment in the care of this illness, and addressed inflationary pressures and existing labour costs within Regional Mental Health Care Services. However, additional work is required to clarify the impact of bringing the entire organization to common policies, salary and benefit rates, and the overlay of an administrative structure across all the programs of St. Joseph's. Certain efficiencies have been realized without any reduction in services with the understanding that any savings would be reinvested in mental health care. The transition period continues to identify opportunities, and realized savings are being protected to enhance mental health care.

Restructuring funding and costs are reported separately on the Statement of Operations. These are one-time in nature and are specifically related to the province's vision for health care as outlined by the Health Services Restructuring Commission (HSRC) in 1997. Similarly, investment income is reported separately in the Statement of Operations. Investment income has been designated by the Board to support future capital and is therefore not currently available for operating purposes, except for $.4 million related to the Lawson Research Institute (LRI). However, under Generally Accepted Accounting Principles (GAAP), investment income is reflected in the Hospital's net bottom line. It is then protected through a transfer to Restricted Funds as highlighted in the Statement of Changes in Net Assets. The result of protecting this investment income is that the remaining operating loss reduces working capital.

Financially, St. Joseph's remains a healthy organization. Working capital is still positive, and net assets have increased over 13 percent. It is our goal to maintain infrastructure through steady investment in capital. In addition, the organization has been able to restrict assets to meet its planned redevelopment and other commitments as outlined in note 9 to the financial statements. Recognizing our commitment to retain resources for the purpose intended, we have restricted the cash surplus available from SJHC operations to be used for future investment in mental health care, as mentioned earlier.

St. Joseph's Health Care, London Financial Statements

Overall service levels have been maintained, with some variation in individual areas, reflecting changing trends and capacity to provide service. Acute care in-patient services, have seen a decline of 3.1 percent from 2001/02. This is partially a result of program transfers to London Health Sciences Centre (LHSC) in accordance with the HSRC directives. Declining birth rates are reflected in the reduced volume in our perinatal program.

Funding for some services is influenced by our relative cost per case, as compared to our peers. During restructuring, our ratio of fixed to variable costs has risen, creating an increase in our cost per weighted case for acute and complex care patients, to the point where they exceed the level expected by the province. With the advent of new funding formulae, which consider cost efficiency, St. Joseph's is being negatively affected until such time as program transfers are complete, and the infrastructure to support remaining programs is resized to benchmark levels. Discussions are ongoing with the Ministry of Health and Long-Term Care (MoHLTC) relative to this problem.

The dynamics involved in managing hospitals are recognized as being very complex. At St. Joseph's, we provide care to all ages from the very young to the very old, with acute or chronic needs, for physical disabilities and mental illnesses, in an environment with rapidly changing technology, limited human resources, and increasing costs, while creating a new organization amidst all the restructuring and change. During the year just ended we have consolidated all the financial, human resource, information and administrative systems, and leadership to support the operations of the new organization. We have also, as highlighted in the financial statements, progressed in citywide integration. This has occurred through joint ventures and leadership with LHSC, in order to increase service alignment and support program transfers.

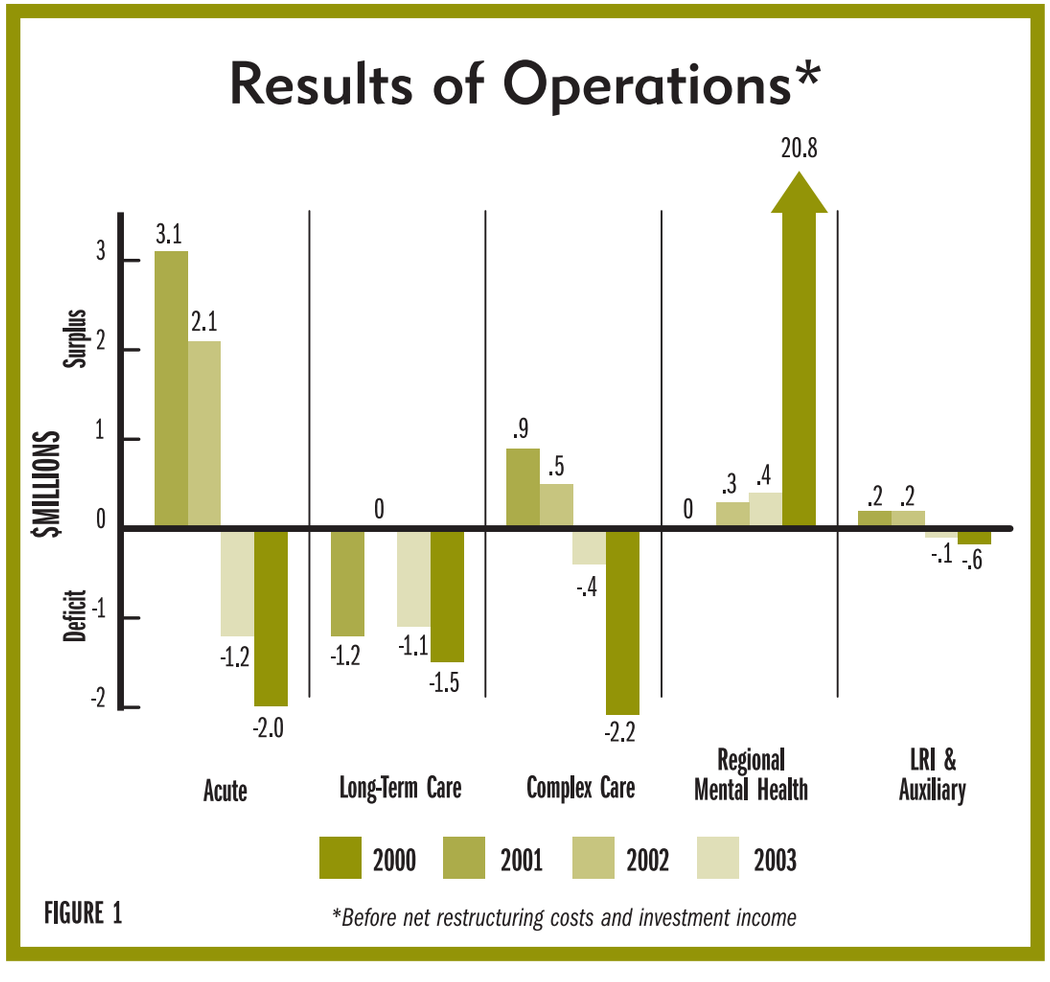


FIGURE 1

*Before net restructuring costs and investment income

Activity

With the transfer of the psychiatric hospitals from the MoHLTC, a significant number of beds and services have been added to SJHC. Figure 2 shows how the inpatient side has grown, corresponding to budget increases. (Note: The Regional Mental Health Care (RMHC) beds transferred were 245 for St. Thomas in January of 2001 and 332 beds for London in February, 2001).

In the following data, we have compared our activity on a basis that compensates for the effects of program transfers. We are in the midst of a multi-year process of transferring acute care inpatient cases to LHSC, however no programs transferred during the year, unlike 2001/2002. Long-Term Care, Complex Care, and Regional Mental Health Care (RMHC) remain more constant, the only exception being the transfer of the Rehabilitation Program to Parkwood in the latter part of fiscal 2001/02.

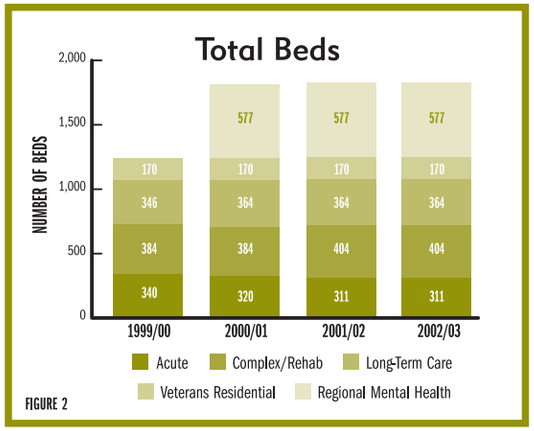


FIGURE 2

Acute Care

Several key indicators are tracked by the hospital and the highlights are as follows:

I. Inpatient cases, shown in Figure 3, in total are lower year over year by 3.1 percent. As more cases are moved to treatment on an outpatient basis, those remaining inpatient cases are of a higher acuity. Our average length of stay for inpatients has increased to 5.4 days, up from 5.2 in 2002.

II. Deliveries declined 6.5 percent over the prior year, however more closely matched the trends of previous years.

III. Emergency visits continue to see increases at both London Hospitals, 3.7 percent at SJHC (Figure 5). As the region continues to face a shortage of family physicians and reductions in services provided by smaller community emergency departments, the emergency departments in London have seen greater demand, and that demand is unlikely to abate.

IV. The first full year of operation post the transfer of the Ophthalmology Program to St. Joseph's in October 2001 has contributed to higher outpatient visits and also helped increase day surgical volumes by over 7.5 percent (Figures 6,7).

On the inpatient side, volumes continue to feel the negative impact of the availability of physician resources, primarily anaesthetists. Rising supply costs have also influenced the volume of procedures in 2002/03. We have 13 operating rooms and, have been able to keep open only 11, on average, for the year due to nursing shortages. Nursing shortages have also resulted in bed closures in several areas.

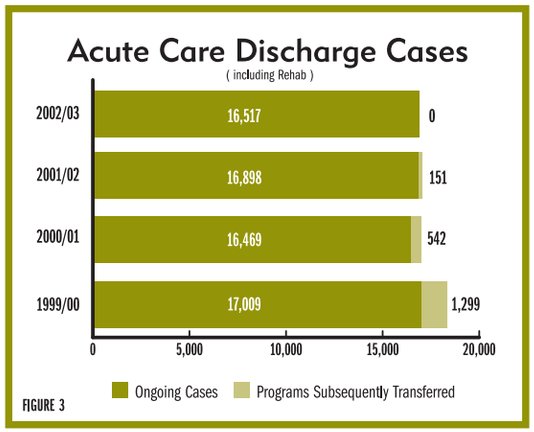


FIGURE 3

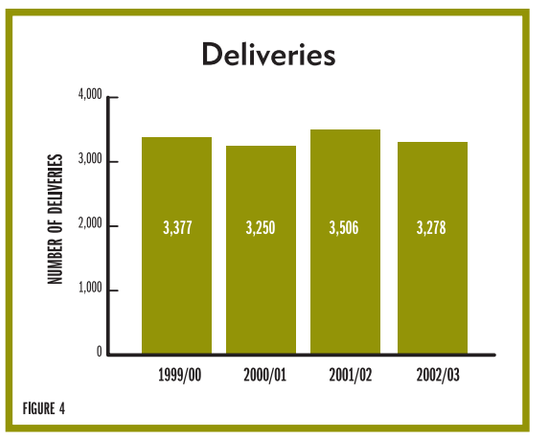


FIGURE 4

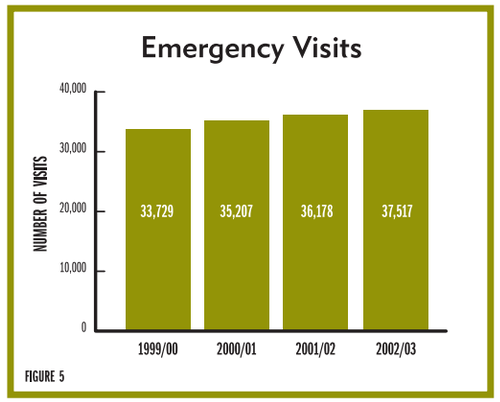


FIGURE 5

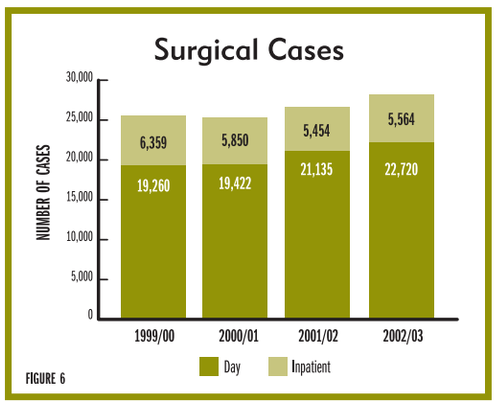


FIGURE 6

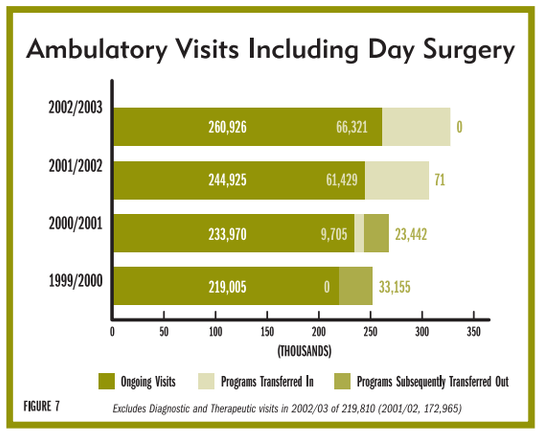


FIGURE 7
Excludes Diagnostic and Therapeutic visits in 2002/03 of 219,810 (2001/02, 172,965)

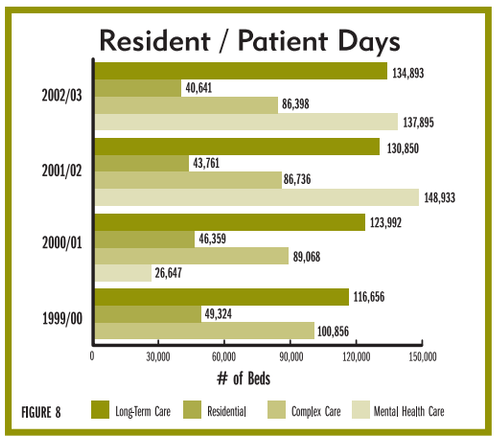


FIGURE 8

Rehabilitation

In 2001/2002 this program saw the transfer of 21 beds from LHSC, and the consolidation of services to the renovated Parkwood from Mount Hope. The resultant 128-bed unit is the home for stroke, amputee, spinal cord injury, musculoskeletal, geriatric, and acquired brain injury patients. Total cases discharged were up 17.6 percent in the year as the program became fully operational.

Complex Care

Patient days remained consistent with last year in complex care and palliative care.

Long-Term Care

St. Joseph's operates 364 long-term care beds. 2001/02 was the first full year of operations since the significant investment in renovations at Marian Villa in 2001. We operated at full capacity for the year, and with the departure of the 30-bed rehab unit in 2002, have opened an additional 30 long-term care beds in August of 2002.

Veterans Care

As the population of war veterans declines, we are seeing a decline in the demand for care. The average age of our veteran patient is 85 years and, as the government has increased beds in the north and central parts of the province, further decreases are expected. Total veterans long-term care resident days declined by 7.1 percent, a trend continuing from previous years.

Mental Health Care

In total, 577 beds are designated for long-term mental health care. Total inpatient days were less than 2001/02 by 7.4 percent, due to a shortage of nursing staff and psychiatrists. Also, as the community outreach programs became fully operational, fewer admissions were required.

Revenue

The majority of funding for Ontario hospitals comes from the MoHLTC. Although current funding is based largely on historical allocations, new methodologies are being developed that take into consideration the changing needs of the region's population and each hospital's relative efficiency. These new methods are currently being used for some incremental funding, but are not yet complete and only reflect some of the hospital's activity. Unfortunately a true "funding for service provided" system is not on the immediate horizon.

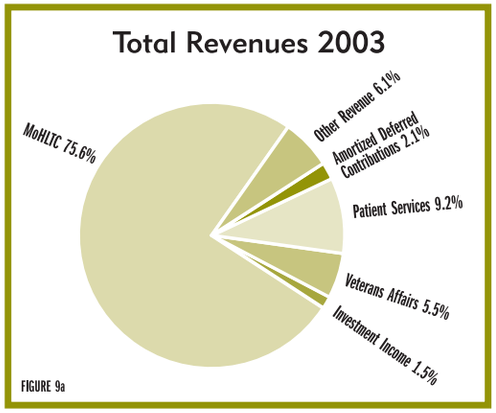


FIGURE 9a

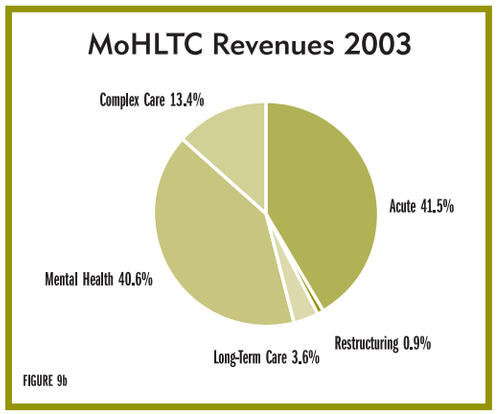


FIGURE 9b

At St. Joseph's, the MoHLTC provided $298.8 million or 75.6 percent of the total revenue, including restructuring income, in 2002/03. This represents an increase of $30.5 million over 2001/02 and primarily reflects an increase in base funding for inflationary costs for mental health of $14 million, and $10 million for non-mental health base budgets. Also included in the increase was $2.4 million for the transfer of in-patient rehab services from LHSC, funding increases for other programs of $2.7 million, and increased restructuring costs of $1.4 million. St. Joseph's also receives funding from Veterans Affairs Canada to support the Western Counties Wing, and veterans requiring complex care at Parkwood Hospital. In 2002/03, Veterans Affairs Canada revenue was $21.9 million or 5.5 percent of total revenue.

Long-Term Care at St. Joseph's, as represented by Mount Hope, is undergoing a transition in funding levels for its St. Mary's operations, from a complex-care level to a long-term residential care level. Annually this represents a five percent reduction in revenue ($.9 million in 2003). 2003/04 will be the seventh year of the seven-year transition period. A new model of care was introduced in 2001 to help with the transition and to prepare the organization to live within available funds. Long-Term Care is funded on a per diem basis, which reflects the complexity of the care and is adjusted on an annual basis. The cost structure of SJHC creates major challenges to operate within the existing per diem rates.

The MoHLTC funds costs incurred on a one-time basis to support restructuring activity. Those meeting certain criteria are funded at 85 percent of the total cost. In 2002/03, St. Joseph's received $2.7 million to offset expenses. Both funding and expenses are separately reported in the Statement of Operations. Costs not funded by the MoHLTC are paid 100 percent by the hospital.

Patient services and other revenue increased a total of $3.5 million. The greatest increases were seen in fees billed to the Ontario Hospital Insurance Plan (OHIP), user fees for the new beds in long-term care, and increases in marketed services (i.e. retail pharmacy, community physiotherapy assessment services, food sales, etc.).

Costs

In 2002/03, 72.5 percent of our operating costs were people related, as is typical of the hospital sector. Although growing in technology, we continue to be "high touch" and require a high-calibre team to deliver our caring mission. The balance of our expenses was spent on operating supplies and drugs (22.2 percent), and amortization of capital costs and restructuring (5.3 percent). Figure 10a shows the distribution of resources among programs and highlights the mental health care services provided at Regional Mental Heath Care sites in London and St. Thomas. Twenty-eight percent of our total resources are invested in mental health care. Figure 10b shows the allocation of resources by program, with 55 percent dedicated to Adult Care.

Salary and benefit costs increased by $13.3 million or 5.1 percent, due in part to inflation. Included in this increase is $2.4 million related to the first full year of operations of the transferred Rehab program, opening of the 30 long-term care beds in August ($.6 million) and a substantial $4.4 million increase in the Hospitals of Ontario Pension Plan (HOOPP) costs as we saw the end of a three year period of reduced costs in December, 2002. After adjusting for these items the net increase was 2.3 percent.

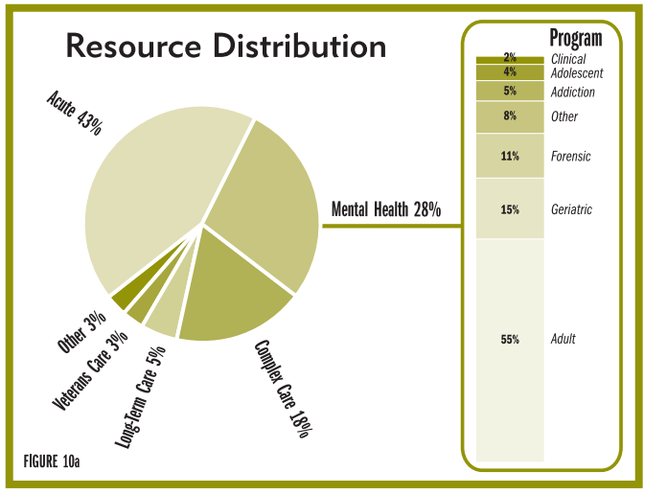


FIGURE 10a

General inflation on supplies of $2.3 million, increased activity in Research ($.8 million), funding for special and community programs ($1.2 million), increased laboratory service costs of $.7 million, along with $1.2 million increased restructuring spending and other increases of $1.1 million account for the balance of the $7.3 million or a 9.3 percent increase in supply costs.

Amortization costs are $1.3 million less than last year. While St. Joseph's has continued an active equipment and facility replacement program to ensure services can offer up-to-date technology as part of their standard of care, limited resources available for capital means more assets are fully depreciated and the average age is increasing.

Financial position as at March 31, 2003

Our balance sheet remains solid with a working capital ratio of 1.12:1 and a long-term debt to net assets ratio of .027. The organization incurred no new debt in 2002/03 and payments have continued on schedule. For 2003 (and comparatives for 2002) we have adopted the GAAP guideline requiring debt with demand provisions to be classified as short-term debt, regardless of repayment terms. This requirement, adopted across the industry, will paint an even more dismal picture of the hospital sector balance sheets. The OHA estimates negative working capital of $1.3 billion across the sector before the effect of the new GAAP guidelines.

Clearly, Ontario hospitals are in a financial crisis collectively. Lower liquidity ratios limit operating capacity and the ability to invest or meet new challenges. The Change Foundation has indicated that 2:1 may be appropriate in some industries and, given public funding, a lower ratio may be acceptable in hospitals, but it should be not less than 1:1. St. Joseph's financial health and performance was recognized as positive compared to its peers in the 2002 Hospital Report Card, but has a current ratio of only 1.12:1 at March 31, 2003. (This report can be found on the Canadian Institute for Health Information Web site – www.cihi.ca)

Accounts receivable at SJHC (Figure 11) are primarily due from the MoHLTC. As highlighted in Figure 12, the aging highlights a slight negative trend. This is due to increasing collection periods with the insurance industry. The latter issue continues to be an ongoing challenge for all Ontario hospitals.

To ensure SJHC can continue to meet future commitments, the Board has restricted some investments. Specifically, funds are restricted for expenses of future periods ($7.9 million), for unspent contributions related to capital assets ($42.5 million), and amounts internally restricted by the Board ($82.2 million) to meet future obligations for employee sick benefits and post-employment benefits, equipment replacement, and planned capital redevelopment.

Professional investment managers, in accordance with our investment policy, manage our investments externally. Management and the Board annually review our investment policy and guidelines, as well as the performance of the investment manager.

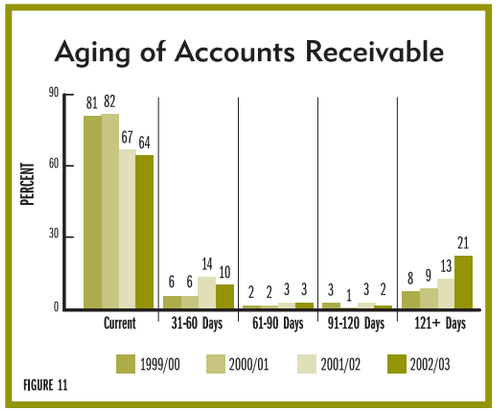


FIGURE 11

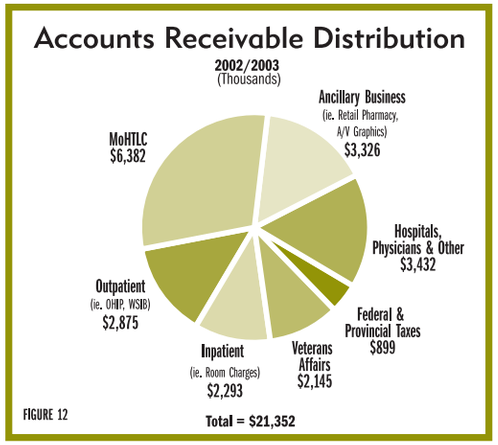


FIGURE 12

Figure 13 shows our investments by type. Investments at March 31, 2003 yield a return as follows:

Government bonds	4.0 to 10.25 percent
Other fixed income	4.05 to 11.4 percent
GIC	4.03 to 5.05 percent

Interest earned on long-term investments in 2002/03 was 4.6 percent, compared to 5.5 percent in 2001/02.

Total investments at March 31 are $150.2 million, compared to $149.8 million in 2001/02. Included are the funds in the amount of $33.6 million advanced in June 2000 by the MoHLTC under the Unconditional Grant program, towards the MoHLTC's funding commitment for approved capital redevelopment. As an externally restricted investment, all income earned on the Unconditional Grant is credited directly to restricted investments, not to operating income, and funds are drawn down as spending is incurred. At March 31, 2003, the balance of the Unconditional Grant is $37.9 million, with income earned to-date of $5.3 million and spending of $1.0 million.

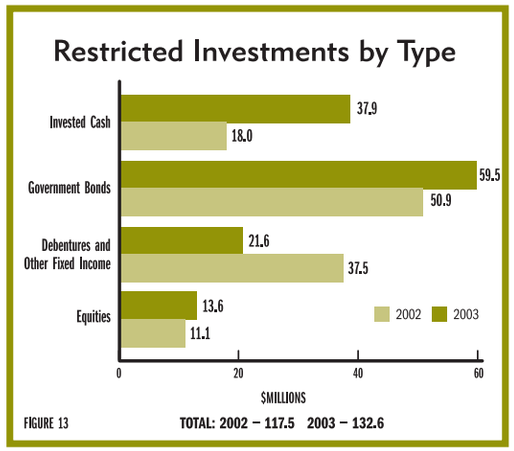


FIGURE 13 TOTAL: 2002 – 117.5 2003 – 132.6

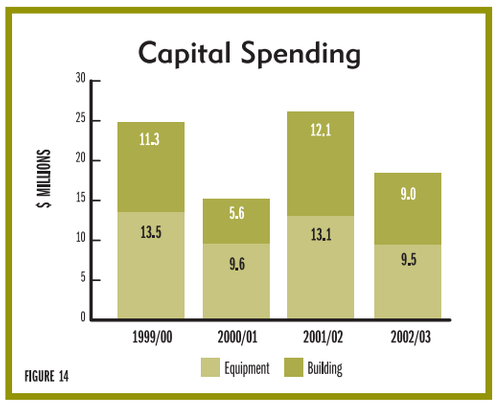


FIGURE 14

During the year the organization spent $18.5 million on capital assets (Figure 14), including $9.0 million on buildings and $9.5 million on equipment. Over $4 million was spent on redeveloping facilities at Parkwood for the rehabilitation program transfer and special care unit for veterans, and $4.1 million on a state-of-the-art Positron Emission Tomography / Computed Tomography (PET/CT) Scanner. Spending has also begun on planning for the redevelopment of St. Joseph's Hospital, and continued information systems upgrades.

Spending on equipment for SJHC for the past year was only 2.4 percent of total revenue, versus 3.6 percent in 2001/02. The 2001/2002-investment level lags our peer group median of 6.6 percent (peer group data for 2002/03 is not yet available). Hospitals in the province are increasingly relying on debt to acquire capital assets. In 2000/01 the long-term debt to total capital assets ratio for teaching hospitals in the province was .17, while St. Joseph's was at .026 in 2002/03 and .031 in 2001/02. With

the steep technology curve, especially in imaging equipment and information technology, we are finding it increasingly difficult to rely on annual depreciation funding from the government, to both adequately replace old equipment, and to allow us to remain current with new technology. Our industry is increasingly becoming dependent on government capital grants and donations from the community to replace equipment.

The Future

As alluded to throughout this document, the hospital sector generally, and SJHC specifically, are faced with numerous and highly complex challenges as we look to the future. Although we struggle with these challenges, we have a community that is united in a future vision. In May 2002, the government reaffirmed its commitment to the necessary funding to redevelop the St. Joseph's site for construction, and again in January 2003 for equipment. The recent funding allocation to St. Joseph's of $54.2 million, along with hospital and community support of $63.4 million, completes the $117.6 million redevelopment funds required for St. Joseph's Hospital. Figure 15 illustrates the spending to date on this project as well as future spending and cash flow needs.

St. Joseph's Site Redevelopment

($ millions)

	Activity Building	March 31, 2003	ACTIVITY Building	ACTIVITY Equipment	TOTAL	TOTAL
Project Cost	12.6		87.5	17.5	**105.0**	**117.6**
MoH Funding	5.0		38.7	10.5	**49.2**	**54.2**
SJH Funding	7.6		23.8	0	**23.8**	**31.4**
Foundation Funding	–		25.0	7.0	**32.0**	**32.0**

FIGURE 15

The Board awaits approval from the MoHLTC to proceed with the next major investment at the St. Joseph's Hospital site – i.e. the new G.A. Huot Surgical Centre and Diagnostic Imaging Centre, and related support areas. With approval, construction is expected to begin in late fall, 2003.

Investment in leading edge technology such as the transition to full digital imaging signifies our commitment to provide the most up-to-date technology available.

We continue to redevelop the Parkwood Hospital site, which will also be the new future home of long-term mental health care programs. As noted in our financial statements the province has committed to cover the cost of construction of the mental health facilities, and construction will commence in approximately two years.

In the summer of 2004, we will reach a major milestone in our continued program transfer process with critical care programs in the Intensive Care Unit (ICU) and Emergency scheduled to move to LHSC. Our planning process recognizes the risks to the continuity of care presented by such program transfers. Planning by leaders in both organizations is focused on keeping the community advised of progress to minimize disruptions to their care. This highly complex process involves detailed planning to ensure staff and equipment make the move into space that has been designed to maximize the efficiency of resources allocated to those programs.

What we hope to achieve in the future is a level of service that is sustainable by adequate funding, responsive to the needs of the community, and recognizes any new risks to our business. Management is keenly aware of the obligations we have to be financially responsible with the resources given to us, and at the same time fulfill our role as advocates to the government for our patients, residents and clients.

Management's Report

The accompanying financial statements of St. Joseph's Health Care, London have been prepared by Management, and approved by the Board of Directors at their meeting of May 26, 2003.

Management works with the Board of Directors to carry out its responsibility for the financial statements principally through its Audit Sub-committee of the Resource Planning Committee. Voting membership of this committee is comprised of outside volunteers. The Audit Sub-Committee meets with management and the internal and external auditors to review any significant accounting and auditing matters and discuss the results of audit examinations. The Audit Sub-committee also reviews the financial statements and the auditors' report and submits its findings through the Resource Planning Committee to the Board of Directors for their consideration in approving the financial statements.

St. Joseph's Health Care, London maintains a system of internal accounting controls that is continually reviewed and improved to provide assurance that financial information is relevant and reliable, and that assets are properly accounted for and safe-guarded.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Mr.Cliff Nordal, FCCHSE
President and CEO

Mr. Ron McRae, CA
Vice President and Chief Financial Officer

Mr. John Mockler, CMA
Director, Finance

May 27, 2003

St. Joseph's Health Care, London Financial Statements

Auditors' Report

AUDITORS' REPORT

We have audited the statement of financial position of St. Joseph's Health Care, London as at March 31, 2003 and the statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of St. Joseph's Health Care, London's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of St. Joseph's Health Care, London as at March 31, 2003 and the results of operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
London, Canada

May 8, 2003

Statement of Financial Position

March 31, 2003, with comparative figures for March 31, 2002

		2003	2002
			(000's)
Assets			
Current assets:			
Cash and short term investments	$	**34,823**	51,940
Accounts receivable *(note 2)*		**21,352**	11,400
Inventories and prepaid expenses		**3,364**	3,542
		59,539	66,882
Restricted investments *(note 3)*		**132,550**	117,486
Investment in joint ventures *(note 14 (c)(d))*		**677**	171
Capital assets *(note 4)*		**184,269**	183,752
		377,035	368,291
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities		**49,488**	58,795
Current portion of loans and mortgages payable		**3,705**	4,642
		53,193	63,437
Long-term liabilities *(note 6)*		**1,044**	972
Provision for demolition *(note 11)*		**1,600**	1,600
Deferred contributions *(note 7)*			
Expenses of future periods		**7,920**	8,507
Capital assets		**139,204**	140,264
		147,124	148,771
Net assets:			
Invested in capital assets *(note 8)*		**85,670**	85,358
Restricted *(note 9)*		**82,155**	62,668
Unrestricted		**6,249**	5,485
		174,074	153,511
Commitments and contingencies *(note 10)*			
	$	**377,035**	368,291

See accompanying notes to financial statements.

Ann Fleming, Chairperson Board of Directors

Mr. Leroy Innanen, Chair Resource Planning Committee

St. Joseph's Health Care, London Financial Statements

Statement of Changes in Net Assets

Year ended March 31, 2003, with comparative figures for March 31, 2002

		Invested in Capital Assets *(note 8)*	Restricted *(note 9)*	Unrestricted	2003 Total (000's)	2002 Total (000's)
Balance, beginning of year	$	85,358	62,668	5,485	**153,511**	151,067
Excess (shortfall) of revenues over expenses		(9,019)	5,519	24,063	**20,563**	2,116
Net change in invested in capital assets		9,331	(9,119)	(212)	–	–
Transfers to restricted		–	23,087	(23,087)	–	–
Increase in net assets		–	–	–	–	328
Balance, end of year	$	**85,670**	**82,155**	**6,249**	**174,074**	153,511

See accompanying notes to financial statements.

Statement of Operations

Year ended March 31 2003, with comparative figures for March 31, 2002

		2003	2002
			(000's)
Revenues:			
Ministry of Health and Long-Term Care	$	**296,146**	267,007
Veterans Affairs Canada		**21,866**	21,949
Patient services		**36,253**	32,737
Other revenue		**24,202**	21,479
Amortization of deferred contributions		**8,208**	8,554
		386,675	351,726
Expenses:			
Salaries and benefits		**271,797**	258,510
Supplies		**83,154**	77,038
Amortization of capital assets		**17,227**	18,546
		372,178	354,094
Excess (shortfall) of revenues over expenses from operations		**14,497**	(2,368)
Health Services Restructuring:			
Current expenditures		**(2,509)**	(1,334)
Ministry of Health and Long-Term Care funding		**2,675**	1,306
Provision for demolition *(note 11)*		**–**	(1,600)
Investment income		**5,900**	6,112
Excess of revenues over expenses	$	**20,563**	2,116

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2003 with comparative figures for March 31, 2002

		2003	2002
			(000's)
Cash provided by (used for):			
Operating activities:			
Excess of revenues over expenses	$	**20,563**	2,116
Items not involving cash:			
Amortization of capital assets		**17,227**	18,546
Amortization of deferred contributions related to capital assets		**(8,208)**	(8,554)
Provision for demolition		**–**	1,600
Change in non-cash operating working capital		**(19,081)**	18,882
Net increase (decrease) in deferred contributions related to expenses of future periods		**(587)**	1,180
		9,914	33,770
Financing and investing activities:			
Increase in deferred contributions related to capital assets		**7,148**	7,430
Reduction in long-term liabilities		**(865)**	(1,336)
Purchase of capital assets		**(18,468)**	(25,204)
Disposal of capital assets		**724**	85
Net change in restricted investments		**(15,064)**	610
Net change in investment in joint ventures		**(506)**	(171)
Increase in net assets		**–**	328
		(27,031)	(18,258)
Net increase (decrease) in cash		**(17,117)**	15,512
Cash and short term investments, beginning of year		**51,940**	36,428
Cash and short term investments, end of year	$	**34,823**	51,940

See accompanying notes to financial statements.

Notes to Financial Statements

($000's)

Year ended March 31, 2003

The accompanying financial statements of St. Joseph's Health Care, London include: St. Joseph's Hospital; Mount Hope Centre for Long-Term Care; Parkwood Hospital; Western Counties Wing; Regional Mental Health Care, London and St. Thomas; the Lawson Research Institute; St. Joseph's Health Centre Auxiliary; and various joint ventures as described in the notes to the financial statements.

1. Accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

(a) Revenue recognition:

The deferral method of accounting for contributions is followed.

Unrestricted contributions are recognized as revenue if the amount to be received can be estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

(b) Investments:

Investments in joint ventures over which St. Joseph's Health Care, London has significant influence or joint control, are accounted for using the equity method.

Investments in marketable securities are recorded at cost. If a decline in the market value of investments below cost occurs and is considered to be other than temporary, a write-down in the carrying value of investments is recorded.

Investment income on unspent deferred capital contributions, if externally restricted for future use, is deferred as a component of such contributions. All other investment income is recognized as revenue when earned.

(c) Capital assets:

Capital assets are recorded at original cost. Amortization of original cost and any corresponding deferred contributions are calculated on a straight-line basis using the following annual rates:

Asset	Rate
Land improvements	2 – 10%
Buildings	2 – 5%
Building service equipment	2 – 10%
Major equipment	5 – 33%

Construction in progress comprises construction and development costs and capitalized interest. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

(d) Measurement uncertainty:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Accounts receivable:

		2003	2002
Ministry of Health and Long-Term Care	$	**6,131**	577
Veterans Affairs Canada		**1,627**	631
Patients and other		**13,594**	10,192
	$	**21,352**	11,400

3. Restricted investments:

	2003		2002	
	Cost	**Market Value**	Cost	Market Value
Cash and cash equivalents	$ **37,850**	**37,850**	37,280	37,280
Government bonds	**59,436**	**60,159**	37,988	37,388
Debentures and other fixed income securities	**21,635**	**21,682**	31,087	31,236
Equities	**13,629**	**9,065**	11,131	10,044
	$ **132,550**	**128,756**	117,486	115,948

Restricted investments represent the investment of unspent deferred contributions for expenses of future periods and capital assets, including the Unconditional Grant Initiative (note 10(c)), and other grants provided by the Ministry of Health and Long-Term Care, as well as amounts designated by the Board for future costs contained in restricted net assets, including capital projects to support restructuring, and investments in joint ventures.

4. Capital assets:

		Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Land	$	8,028	–	**8,028**	8,028
Land improvements		2,386	1,716	**670**	797
Buildings		232,969	88,743	**144,226**	145,071
Equipment		133,329	101,984	**31,345**	29,856
	$	376,712	192,443	**184,269**	183,752

5. Credit facilities:

The credit facilities established for St. Joseph's Health Care, London consist of an operating line of $10,000, non-revolving demand installment loans of $3,505 and a revolving capital expenditure credit of $10,000. Amounts were drawn on these facilities as described in note 6.

St. Joseph's Health Care, London Financial Statements

6. Long-term liabilities:

(a)		2003	2002
Mortgage bearing variable interest rate of 9.5% to 10.25%; payable, $275 per year through July 15, 2002, secured by the Grosvenor Street parking facility	$	**–**	275
Mortgage bearing interest at bank prime rate less .5%, principal to be reduced by $2 per month with the balance becoming due March 1, 2007		**112**	139
Unsecured banker's acceptances subject to an interest rate swap agreement (d); the principal outstanding is renewable monthly and is to be reduced by $29 per month due May 21, 2003 through December 15, 2011		**3,393**	4,027
		3,505	4,441
Employee future benefits		**114**	126
Accumulated sick leave entitlement (c)		**1,130**	1,047
		4,749	5,614
Less current portion		**3,705**	4,642
	$	**1,044**	972

Interest on long-term liabilities was $308 (2002, $386).

(b) Principal payments due under various debt agreements are as follows:

2004	$	347
2005		318
2006		318
2007		319
2008		290
Thereafter		1,913
	$	3,505

(c) The accumulated sick leave entitlement reflects the remaining liability from a former plan, with changes during the year representing changes in wage rates and payouts to employees upon retirement or departure.

(d) St. Joseph's Health Care, London has entered into an interest rate swap agreement on a notional principal of $3,393 as at March 31, 2003 terminating December 15, 2011. This agreement has effectively converted variable interest rates on unsecured banker's acceptances to an effective fixed interest rate (including stamping fee) of 6.315%.

(e) The Canadian Institute of Chartered Accountants recommendations contained within EIC 112 "Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced" have resulted in a reclassification of demand installment loans from long-term to current if the creditor has the unilateral right to demand immediate repayment of any portion of all of the debt under any provision of the agreement. This standard has been applied retroactively.

7. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions related to future periods represent unspent restricted grants and donations for research and other purposes.

(b) Capital assets:

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets.

The balance of deferred contributions related to capital assets consists of the following:

		2003	2002
Unamortized capital contributions used to purchase assets	$	**96,729**	93,953
Unspent contributions		**42,475**	46,311
	$	**139,204**	140,264

During 2001, $33,600 was received as a restricted unconditional grant from the Ministry of Health and Long-Term Care (note 10(c)). To-date, $1,038 of this grant has been spent, and interest earned of $5,287 has been credited to unspent contributions.

8. Invested in capital assets:

Invested in capital assets is calculated as follows:

		2003	2002
Capital assets	$	**184,269**	183,752
Amounts financed by:			
Deferred contributions		**(96,729)**	(93,953)
Deferred contributions receivable		**1,635**	–
Loans, mortgages and accounts payable		**(3,505)**	(4,441)
	$	**85,670**	85,358

9. Restrictions on net assets:

The Board of Directors of St. Joseph's Health Care, London, have placed certain restrictions on funds to reflect the wishes of donors or to meet future needs as identified by the Board.

		2003	2002
Restricted net assets:			
Research	$	**1,000**	1,000
Accumulated sick leave entitlement		**1,130**	1,047
Employee future benefits		**1,682**	1,282
Provision for demolition		**1,600**	1,600
Provision for future equipment and capital redevelopment		**76,743**	57,739
		82,155	62,668
Deferred contributions:			
Expenses of future periods		**7,920**	8,507
Unspent contributions		**42,475**	46,311
	$	**132,550**	117,486

St. Joseph's Health Care, London Financial Statements

10. Commitments and contingencies:

(a) Pursuant to the directives of the Ontario Health Services Restructuring Commission (HSRC), St. Joseph's Health Care, London assumed management of the mental health programs and services being provided by the St. Thomas and London Psychiatric Hospitals on January 22, 2001 and February 19, 2001, respectively.

i. St. Joseph's Health Care, London has entered into a five-year lease with the Ontario Realty Corporation at nominal value to utilize the existing London and St. Thomas Psychiatric Hospital sites for Regional Mental Health Services until new facilities can be constructed, and services decanted to other communities as directed by the HSRC.

ii. On October 25, 1999 and October 26, 1999, the St. Joseph's Health Care, London and London Health Sciences Centre Boards of Directors respectively endorsed a land transfer to enable the relocation of specialized mental health services to the Parkwood site.

iii. The future capital investment for mental health buildings and equipment is to be fully funded by the Ministry.

(b) The HSRC directives also call for the majority of acute in-patient services to be transferred to London Health Sciences Centre, such that St. Joseph's Health Care, London will become the focal point in London and region for certain ambulatory care, day surgery, rehabilitation, complex care, long-term and veterans care, and tertiary and specialized mental health services. This restructuring process will continue to be implemented in phases over a number of years.

Future capital investment to renovate the Grosvenor site is estimated to be $105,057. The Ministry has committed to provide related future capital funding of $49,212, St. Joseph's Health Care, London has committed to provide funding of $23,845, and the remainder is to be sourced from the community.

(c) Pursuant to the HSRC directives noted in (a) and (b) above, St. Joseph's Health Care, London has participated in the Unconditional Grant Initiative offered by the Ministry of Health and Long-Term Care for the redevelopment of the Grosvenor site and Mental Health Services. The Ministry has advanced a portion of the committed funds in fiscal 2001 for the Grosvenor site and Mental Health of $11,800 and $21,800, respectively. These advances were discounted to reflect St. Joseph's Health Care, London's ability to earn investment income on the funds prior to their expenditure. As at March 31, 2003, the remaining funds, including accumulated interest are $12,619 and $25,230 for Grosvenor site and Mental Health, respectively.

(d) St. Joseph's Health Care, London is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavourable settlements, if any, which may result from such claims.

11. Provision for demolition:

The former St. Mary's Hospital has been vacant since 1997 and is fully depreciated. In 2002 a provision for demolition of this property had been recorded, as it has been determined by the Board of Directors, this building will no longer be used and will be torn down.

12. Employee future benefits:

(a) Pension Plan

Substantially all full time employees of St. Joseph's Health Care, London are members of the Hospitals of Ontario Pension Plan. This Plan is a multi-employer, defined benefit pension plan.

Employer contributions to the Plan on behalf of employees amounted to $10,486 (2002, $6,090).

The most recent actuarial valuation of the Plan indicates the Plan is fully funded. A Plan surplus has resulted in contribution requirements being reduced for calendar year 2002.

(b) Other Employee Future Benefits

Accrued obligations for all post employment benefits, other than pensions, based on amounts determined by independent actuaries are $3,349 as at March 31, 2003 (2002, $3,096). The discount rate used in determining the actuarial present value of these future benefits is 6.75% at March 31, 2003 (2002, 6.75%). The transitional obligation as at March 31, 2003, of $517 (2002, $560) is being recognized over the employees' average remaining service life, along with unrecognized prior service costs of $1,117 (2002, $1,221). The unrecognized net loss is $33 (2002, $33).

Other post employment benefits other than pensions, expensed during the year were $431 (2002, $393). Benefits paid during the year were $31 (2002, $25). As at March 31, 2003 the recorded liability related to these costs is $1,682 (2002, $1,282). The Board of Directors of St. Joseph's Health Care, London has restricted assets to fund the accrued obligations represented by these accrued post employment benefits as at March 31, 2003.

13. Fair value of financial instruments:

The fair values of investments have been determined based on quoted market values at the close of business on March 31, 2003. The investments consist of equity, government and corporate bonds with a minimum investment rating of A.

The fair market value of the interest rate swap agreement disclosed in Note 6(d), being the loss that would have been realized had the agreement been terminated on March 31, 2003, is $242 (2002, $136).

The fair values of all other monetary assets and liabilities approximate their carrying values in the balance sheet.

14. Related entities:

(a) Foundations:

St. Joseph's Health Care Foundation is incorporated without share capital under the laws of Ontario. St. Joseph's Health Care, London exercises significant influence, but not control, over the Foundation by virtue of its ability to appoint certain members of the Foundation's Board of Directors. During the year ended March 31, 2003, the Foundation provided donations totaling $2,973 (2002, $1,078).

Parkwood Hospital Foundation is a related entity incorporated without share capital under the laws of Ontario. The Foundation is independent, but exists to support designated programs and services within St. Joseph's Health Care, London. During the year ended March 31, 2003, the Foundation provided donations totaling $504 (2002, $844).

The net assets and results of operations of the Foundations are not included in these financial statements.

(b) Lawson Research Institute

The Lawson Research Institute (LRI) is a wholly owned subsidiary of St. Joseph's Health Care, London. On June 26, 2000, the LRI entered into an agreement with St. Joseph's Health Care, London, London Health Sciences Centre, and the London Health Sciences Centre Research Inc., to form a transitional Board to conduct all research activities as the Lawson Health Research Institute. Each venturer continues to account for their costs independently and as such, the LRI is consolidated in these statements.

St. Joseph's Health Care, London Financial Statements

(c) Healthcare Materials Management Services:

St. Joseph's Health Care, London and London Health Sciences Centre are partners in an unincorporated joint venture, Healthcare Materials Management Services (HMMS). HMMS consolidates purchasing, warehousing, distribution and payment processing functions and provides similar services to other healthcare institutions. St. Joseph's Health Care, London accounts for its interest in the joint venture using the equity method of accounting.

The allocation of net operating costs for the year ended March 31, 2003 was as follows:

		2003	2002
St. Joseph's Health Care, London	$	**963**	701
London Health Sciences Centre		**2,470**	2,064
	$	**3,433**	2,765

HMMS incurred a loss of $189 (2002, $247) during the year, which is equal to the amortization of capital assets recorded during the year.

HMMS has activated bank credit facilities consisting of a $10,000 operating line of credit and a $888 term loan. As at March 31, 2003, HMMS had drawn down $2,606 on its operating facility. St. Joseph's Health Care, London has provided a guarantee for up to $3,562 in support of these credit facilities.

The net investment in HMMS at March 31, 2003 is $43 (2002, ($9)).

(d) London Laboratory Services Group

On December 1, 2000, St. Joseph's Health Care, London and London Health Sciences Centre entered into a joint venture to consolidate all laboratory services, London Laboratory Services Group (LLSG). St. Joseph's Health Care, London accounts for its interest in the joint venture using the equity method of accounting.

The allocation of net operating costs of the joint venture as at March 31, 2003 was as follows:

		2003	2002
St. Joseph's Health Care, London	$	**8,767**	7,908
London Health Sciences Centre		**29,307**	26,686
	$	**38,074**	34,594

The LLSG incurred a loss of $976 (2002, $191) during the year, which is equal to the amortization of capital assets recorded during the year. During the year, St. Joseph's Health Care, London contributed $68 towards a capital equipment investment of $567.

The net investment in Consolidated Laboratory Services at March 31, 2003 is $634 (2002, $180).

15. Comparative amounts:

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.