Growing a healthy community through care, teaching and research

Financial Statements of
St. Joseph's Health Care, London
Year ended March 31, 2004

ST JOSEPH'S
HEALTH CARE LONDON

Message from Dawn Butler Treasurer of the Board

2004 Financial Statements

Health care funding remains a dominant challenge and concern for all Canadians. For hospital Boards and leaders, the challenges escalate during this time of evolution towards more effective system planning and policy development at both the federal and provincial levels. Our mandate has become one of both effective stewardship of resources and greater advocacy on behalf of our region's health system needs.

We advocate with our colleagues in the Ministry of Health and Long-Term Care (MoHLTC), the Ontario Hospital Association (OHA), the Ontario Council of Teaching Hospitals (OCOTH), the Thames Valley Hospital Planning Partnership (TVHPP), the Catholic Health Associations (CHAC – CHAO Canada and Ontario), and our political representatives at all levels of government.

In the 2003/04 fiscal year, St. Joseph's Health Care, London (SJHC) and London Health Sciences Centre (LHSC) made significant advances in achieving a better provincial understanding of the service and funding needs of the London hospital system. We have, however, much more work to do to ensure this new provincial awareness results in a significant change in funding models.

First, the longstanding operating funding challenges in Ontario's hospitals were the subject of a provincial Third Party Review of hospital performance completed in 2003. While SJHC received positive feedback on the quality of our submission along with assurances that system recommendations would be made to the provincial government, we remain disappointed that no report from the co-investigators has ever been released by the MoHLTC. This is most unfortunate given the time, energy and resources invested in the process. The expectation had been that there would be valuable systemic recommendations directed at both the hospitals and the MoHLTC for the benefit of Ontario's hospital system as a whole. Our

disappointment was shared across the province. Furthermore, the funding allocation received by SJHC was approximately half of the amount anticipated as a result of the review.

Nevertheless, in response to the Third Party Review and ongoing under-funding, SJHC submitted an Impact Analysis to the MoHLTC in June, 2003. This document described the care and service reductions necessary in order to live within the available financial resources from the Third Party Review. As a result of this submission and a similar one from LHSC, an independent Financial Review was mandated jointly by both Boards of the London Hospitals, and the MoHLTC.

This subsequent review was conducted by The Monitor Group and was undertaken in the Fall of 2003. A final report was completed on December 4, 2003. The recommendations outlined in the *Monitor Report* were accepted by both Hospitals' Boards, and the findings were supported by the MoHLTC, including commitments made by all parties.

In essence, the *Monitor Report* validated SJHC's 2003/04 acute care operating cost structure as being necessary to support the volumes and types of services being provided at St. Joseph's Hospital. As well, the *Monitor Report* noted that St. Joseph's Hospital would need a new provincial funding model, given its shift from acute in-patient care to acute ambulatory (day surgery and outpatient) care.

The *Monitor Report* also included significant recommendations for Parkwood Hospital and Mount Hope Centre for Long-Term Care. These recommendations would see the base operating budgets for each site re-negotiated with MoHLTC in order to sustain care and service levels into the future.

Both SJHC and LHSC expected to have confirmation from the Province of the funding recommendations in the *Monitor Report* by the end of the 2003/04 fiscal year. This did not occur, although we have received some one-time funding to bridge between the beginning of the 2004/05 fiscal year and resolution of the *Monitor Report* recommendations.

We remain closely aligned with LHSC as we restructure and transfer in-patient acute care services to and from LHSC. Beginning in 1999 and expecting to conclude in 2008, this process has involved extensive joint 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 $8.7 million in acute care in-patient budgets at St. Joseph's Hospital as a result of these transfers.

Maintaining the viability of our services today and meeting our future commitments is our goal. In 2003/04, we invested $8.3 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 $10.1 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 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 (RMHC) sites will exceed $270 million. Thanks to the ongoing generosity of the community and the financial commitment from the government, our vision for future facilities will become a reality. The tender for the G.A. Huot Surgical Centre and the Diagnostic Imaging Centre was awarded. Construction on the St. Joseph's Hospital site began December 1, 2003 and is scheduled for completion by September 2005. In order to make these things happen, we need to ensure the availability of funding. To do that, we have restricted, as required, our available assets to ensure we are in a position to meet our future commitments and obligations. These restricted investments are segregated on our balance sheet ($156 million at March 31, 2004), and are managed by a professional investment manager under the direction of the Resource Planning Committee of our Board.

Operating cost pressures continue unabated, from wage increases driven by collective agreements to compliance with legislated mandates imposed by government. The $17.6 million net year-end surplus reflected in our financial statements masks the financial problems in our non-Mental Health Care business lines. Also included in that amount is $8.2 million of investment income, which is needed to support our capital building commitment; a $9.4 million net surplus from operations, generated by a non-recurring surplus in our mental health care operations of $13.3 million. All of our other operations incurred a combined deficit of $3.9 million.

Ontario's hospital system has significant financial challenges, and while SJHC remains healthier than most, our financial health is in danger of deteriorating. Our Board is struggling with balancing the public's legitimate demand for services with financial capacity, while ensuring adequate long-term investment to sustain a financially healthy organization for the future. An important contributor to our financial stability is the MoHLTC's support for the funding recommendations arising from the Monitor Financial Review. We are counting heavily on these recommendations being achieved in 2004/05. If it is not, the consequences on our service capacity will be profound.

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 SJHC is among the leaders in the province in maintaining this equilibrium.

In closing, I wish to acknowledge the significant contributions of our dedicated staff members 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.

Dawn Butler, CA, B.Comm

Treasurer of the Board

Management Discussion and Analysis

From left to right: Cliff Nordal, President & CEO; Jim Flett, Integrated Executive Vice President Corporate Services; Ron McRae, Vice President – Integrated Chief Financial Officer.

Background

St. Joseph's Health Care, London (SJHC) remains one of Ontario's finest teaching hospital organizations, providing a broad spectrum of services including: acute ambulatory care; rehabilitation; tertiary and forensic mental health care; complex care including palliative care; veterans care and long-term care. These major programs encompass an array of regional specialty and sub-specialty services and a host of community-based services throughout Southwestern Ontario.

Restructuring Milestones to-date:

- ❑ Health Services Restructuring Commission (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
  - Cardiology to LHSC - June 2000
  - Diabetes to SJHC – May 2000
  - Rheumatology to SJHC – Sept. 2000
  - Renal to LHSC – Jan. 2001
- ❑ Transfer of Governance of London and St. Thomas Psychiatric Hospitals to SJHC - January and 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
  - Adult Rehabilitation to SJHC – Feb. 2002
  - Medicine (Phase 1 - 25 beds) to LHSC – Mar. 2004

While the scope of our mission is very diverse, SJHC is centred by a single vision and set of core values – Respect, Excellence and Compassion. We are well on the way to a new future in care and service delivery. The restructuring journey is a long one as we transform existing facilities, construct new buildings and implement major shifts in how care is delivered, all in an effort to respond to our constituents' changing health care needs.

As summarized on the chart above, much has been accomplished to-date. In total, $8.7 million of funding has already been realigned across London's acute care hospital system, resulting in a net transfer of $8.0 million from SJHC to London Health Sciences Centre (LHSC) and another $0.7 million to the London Regional Cancer Centre (LRCC) since the beginning of hospital restructuring in 1997. Following the completion of Milestone I in 2005, a further $30 million will transfer to LHSC.

Extensive movement is expected in the 2004/05 fiscal year as we undertake a large group of major program moves in acute care, known as Milestone I. To make these moves possible, facilities have to be constructed or renovated, patient care programs and plans co-ordinated, and technology and equipment supports secured. Most importantly, patients, families, physicians and staff members need to be supported through these transitions as they move to new locations with new care models and new work relationships.

Milestone 1- Phase 2 (target May/June 2004)

- ENT (Head & Neck) to LHSC
- Partial Perioperative Dentistry to LHSC
- Ophthalmology Phase 3 Adult Perioperative to SJHC

Milestone 1- Phase 3 (target 2005 completion)

- Emergency to LHSC
- Intensive Care to LHSC
- General Surgery to LHSC
- Medicine (Phase 2) to LHSC
- GAU (partial) to LHSC
- Emergency related Orthopaedics to LHSC
- Family Medicine/Palliative Care to LHSC

Milestone 2 (target 2007)

- Perinatal (Obstetrics and NICU) to LHSC
- Orthopaedics (Hip and Knee) to LHSC
- Partial Gynaecology to LHSC
- Cardiac Rehab to SJHC
- Ophthalmology (Phase IV Ivey Institute offices/clinics) to SJHC
- Allergy to SJHC

April 2004
Based on current approved MoHLTC Master Plan.

Transformation of the mental health care system in Southwestern Ontario is another area of continuing focus and planning. We are pleased to note that this past year, following extensive consultation with health and community partners, we prepared and submitted program plans and initial drawings for the two new specialty mental health facilities SJHC has been mandated to build. These new facilities replace the aging structures in both London and St. Thomas. In the coming months, we hope to achieve an approved construction plan with the Ministry of Health and Long-Term Care (MoHLTC), which would see these new facilities completed in 2007/08.

As well, SJHC is charged with transferring a portion of mental health in-patient services to hospitals in Kitchener, Hamilton, Windsor and St. Thomas. This requires considerable co-ordination with these hospitals to ensure that care delivery, human resources and facility plans come together. At Regional Mental Health Care (RMHC) in London and St. Thomas, we are implementing care delivery changes that will support the system changes and ensure that the care we provide is based on the best practices and outcomes in the mental health care field.

At Parkwood Hospital, much of the physical transformation is complete. This year, continued funding pressures prompted Parkwood's leaders to conduct a comprehensive review of care models and service processes. This review was conducted with the support of IBM Consulting, which compared Parkwood's care models and performance indicators with similar programs across Canada. This report is being reviewed by the MoHLTC in relation to operating funding levels needed to sustain our rehabilitation, complex care, and specialized geriatric care programs.

We must also note the ongoing funding challenges for long-term care providers across Ontario. Mount Hope Centre for Long-Term Care is no exception, and we are actively working with Ministry

representatives to address both short and long-term requirements in order to sustain the current number of long-term care beds in our facilities.

To support health care delivery in a changing hospital system, several joint ventures, shared services, and integrated leadership positions have been implemented between LHSC and SJHC. As highlighted in the financial statements, there are three formal joint ventures between the two hospital corporations. These are: Healthcare Materials Management Services (HMMS); the London Laboratory Service Group (LLSG); and the Lawson Health Research Institute (The Lawson). Each year, these joint ventures are strengthened and enable our hospitals to operate more efficiently, provide more timely service, and tap into other resources to support care, teaching and research.

The London hospital system continues to benefit from other shared and integrated approaches, including the continuing shared leadership structure between LHSC and SJHC. These approaches are gaining much attention and accolades from government representatives and other provincial hospitals.

On top of mergers, acquisitions, restructuring, and professional staff shortages, the funding issues that Ontario hospitals continue to face is 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 6.6 percent lower in 2003/04 than in 1992/93. These realities are not well understood by the public and create ongoing public relations issues for hospitals in explaining our financial challenges.

The 2003/04 fiscal year ended with an operating surplus of $17.6 million, primarily due to a surplus in mental health care, which is largely attributed to staff vacancies in nursing and other positions in the face of professional shortages. All other areas experienced deficits. As agreed with the MoHLTC, operating funding received for mental health care programs is restricted for use in these services to the extent of our financial capacity. The deficit in other operations is of concern and we are working with provincial representatives to ensure the impact of continued under-funding on access to care is fully understood.

SJHC is one of few large hospital organizations in the province to succeed in maintaining a positive working capital position despite the funding challenges. This has afforded us some limited flexibility, more time to accomplish restructuring plans and some time to wait for more federal and provincial government clarity on health system and hospital funding plans. We have also been able to avoid substantial care and service reductions to-date, and thereby minimize impacts on patients, our partner hospitals and the region.

Fiscal 2003/04 also saw yet another external review, which followed "on the heels" of the Third Party Review (TPR). The Financial Review was triggered as a result of the unsolicited submission of the Impact Analysis document to MoHLTC in June 2003, describing the negative impact on our acute care service delivery capacity in London should additional funding not be forthcoming. In response to these

facts, the London Hospitals' Boards and MoHLTC, mandated a Financial Review to substantiate the financial projections. The Monitor Group was selected as the consultant, and fieldwork commenced in September 2003. The Final Report was completed and all funding recommendations were accepted and agreed to by both London Hospitals' Boards and supported by the MoHLTC on December 4, 2003. The recommendations validated SJHC's 2003/04 operating cost structure, concluding that the hospital was incurring expenses at an appropriate level to sustain volumes of acute care services. Achieving these funding recommendations will be critical to stabilize and sustain a financially healthy organization into the future.

In 2001, the Boards of SJHC and LHSC, introduced an Internal Audit Service to further strengthen our financial stewardship and public accountabilities. Serving both hospital corporations, the service has been outsourced to PricewaterhouseCoopers$_{LLP}$ and supports the ongoing review of financial systems and controls. We are now also working with other provincial teaching hospitals to share knowledge gained from our audit and review processes. This kind of objective assessment is important to our financial effectiveness as we manage unprecedented change.

We are pleased to present this year's financial report. On behalf of the entire Senior Leadership Team, we express our appreciation to everyone who has contributed in any way to our accomplishments of the past year. Many people – leaders, physicians, staff members, volunteers and donors – all continue to excel by supporting patient care through their commitment and dedication. Without their efforts we would not be able to provide the scope of care, teaching and research programs that comprise our healing ministry.

If you have any questions after reviewing the Management Discussion and Analysis, please contact our offices at the numbers highlighted at the back of the document.

In the spirit of community, in the pursuit of health,

Cliff Nordal, BSc, MBA, FCCHSE President & CEO	Jim Flett, CA, MBA, BComm Integrated Executive Vice President	Ron McRae, CA Vice President, Integrated Chief Financial Officer

Overview

Senior Finance Team

From left to right: David Morton – Coordinator Financial Capital Redevelopment and Treasury; Bob Evans – Coordinator Fiscal Planning and Reporting; John Mockler – Director

For the year ended March 31, 2004, SJHC experienced an overall surplus from operations of $12.6 million, or 3.1 percent of operating costs, before investment income and net restructuring expenses (2003, $14.5 million). Underlying this result is the recognition of the distinctiveness 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 that our net cash surplus allows, we protect the surplus for future investment in mental health. A shortage of professional staff is the most predominant 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 long-term care and complex continuing care operations, as highlighted in Figure 1(see page 11).

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 2003/04, including investment income and restructuring expenses, there is an overall excess of revenues over expenses of $17.6 million, down from $20.6 million in 2002/03. Post divestment, in 2001, of mental health care by the Province, considerable work has been done to bring the entire organization to common policies, salary and benefit rates, and the overlay of an administrative structure across all the programs of SJHC. 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 $0.4 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.

Financially, SJHC remains a healthy organization. Working capital is positive, and net assets have increased over 10 percent from 2002/03. 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.

Affecting overall service in 2003/04 was the Sudden Acute Respiratory Syndrome (SARS) epidemic, which began late March 2003, and continued well into the early part of the 2003/04 fiscal year. While in some cases we were able to recover some of these lost volumes, generally speaking there was a decline in service levels for the year. Beyond this impact, overall service levels have been maintained, with some variation in individual areas, which have increased or decreased, reflecting changing trends and capacity to provide service. Acute care in-patient services have seen a decline of two percent from 2002/03. Declining birth rates are reflected in the reduced volume in our Perinatal Program, in addition to program transfer related bed reductions during the year. Excluding the program transfer effect, in-patient acute care cases are down one percent over 2002/03.

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, SJHC 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 MoHLTC relative to this problem. The independent Monitor review supports the position that the cost per case metric is not a good measure for an organization such as ours in the midst of such radical transformation.

The dynamics involved in managing hospitals are recognized as being very complex. At SJHC, 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. These services are provided while creating a new organization amidst ongoing restructuring. Having consolidated financial, human resource, information and administrative systems, and leadership to support the operations of the new organization, we continue to progress in realizing the opportunities found in city-wide integration. This has occurred through joint ventures and leadership with LHSC, in order to increase service alignment and support program transfers.

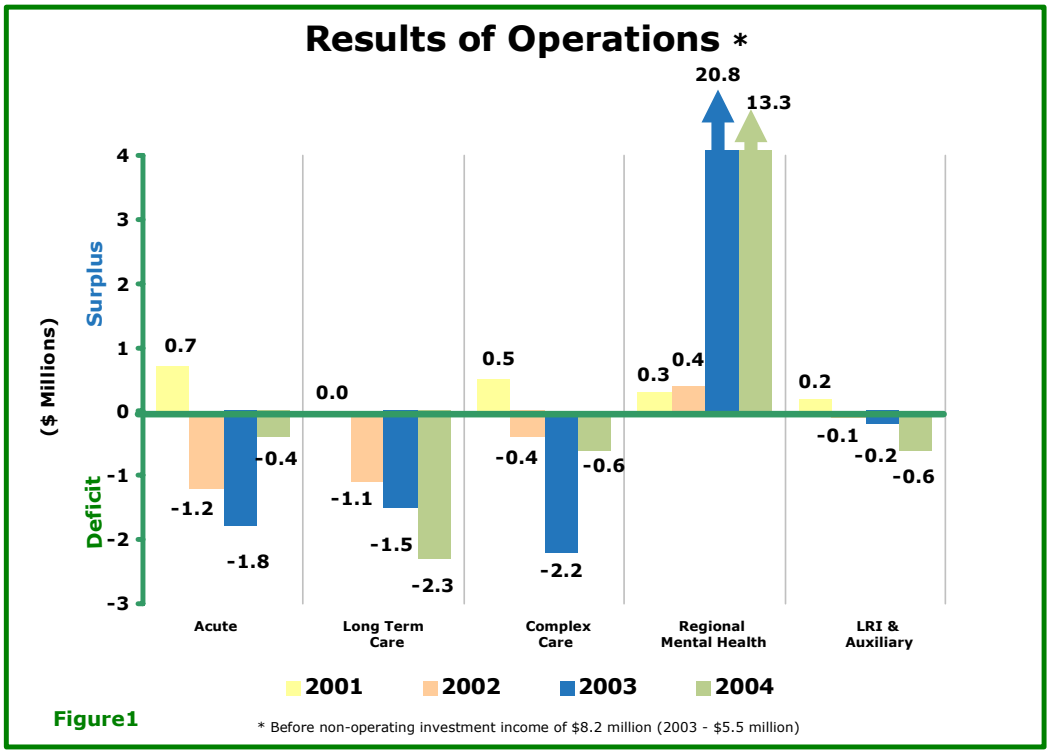


Figure1

Activity

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 in-patient cases to LHSC, with a partial program transfer within the Medicine Program that occurred in March 2004. Twenty-five Medicine beds were transferred out with 51 beds remaining in the Medicine Program. Within the Complex Continuing/Veterans Care setting, we saw the closure of 40 veterans beds in October 2003. These residents were moved into long-term care beds in the Western Counties Wing. Rehabilitation volumes have been impacted by temporary bed closures on the Geriatric Rehabilitation Unit. These four beds are scheduled to re-open in June 2004.

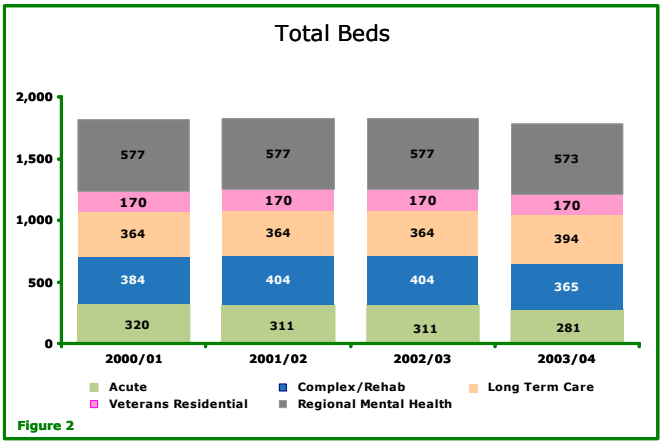


Figure 2

Acute Care

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

I. In-patient cases, shown in Figure 3, continue a decreasing trend with our move towards an ambulatory care setting. Year-end volumes are two percent lower than the previous year. 129 cases were transferred out, associated with partial Medicine and Surgical program transfers. Patient acuities indicate heavier patient care for those remaining cases. Average length of stay has improved over the previous year by more than seven percent.

II. Deliveries declined over three percent from the prior year (Figure 4). Changing demographics explain this trend, as experienced in all communities in the region.

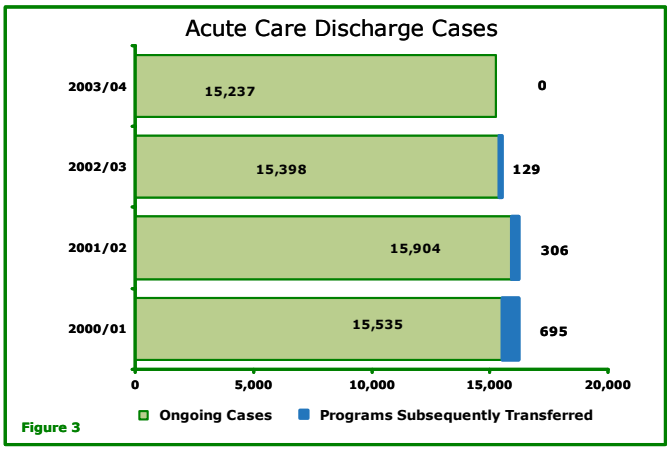


Figure 3

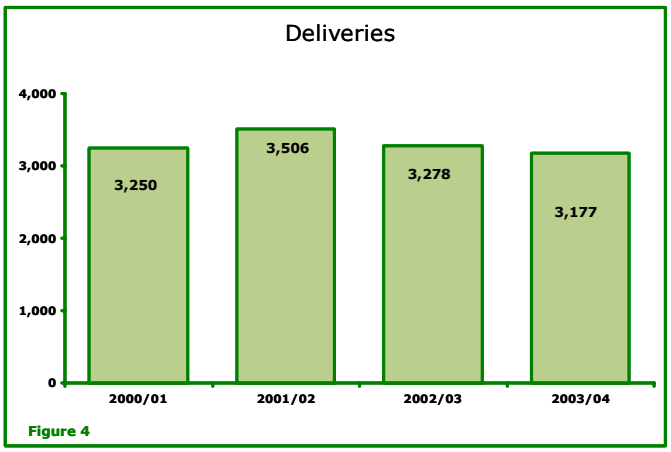


Figure 4

III. Emergency visits significantly decreased from that seen over the previous three years (Figure 5), however the effects of SARS had the greatest impact this year.

IV. In-patient surgical cases have decreased year over year (Figure 6). Out-patient cases remain fairly constant however there is a six percent decrease in Lithotripsy procedures from the previous year as other programs in the Province increase capacity.

V. Ambulatory Care visits in 2003/04 were impacted early by SARS (Figure 7). April 2003 saw only urgent cases and while activity resumed schedule in May 2003, year-end volumes were adversely affected. As a result, total visits were four percent below the previous year. Volumes in 2000/01 did not include Community Service Clinics but did include Dialysis Clinics. The Renal Program transferred to LHSC in 2001/02.

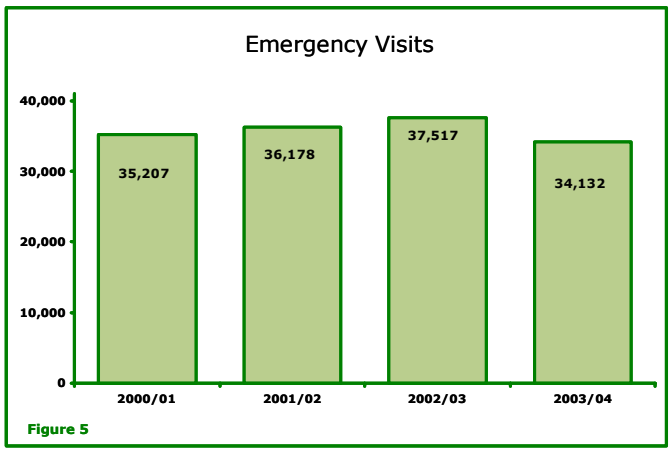


Figure 5

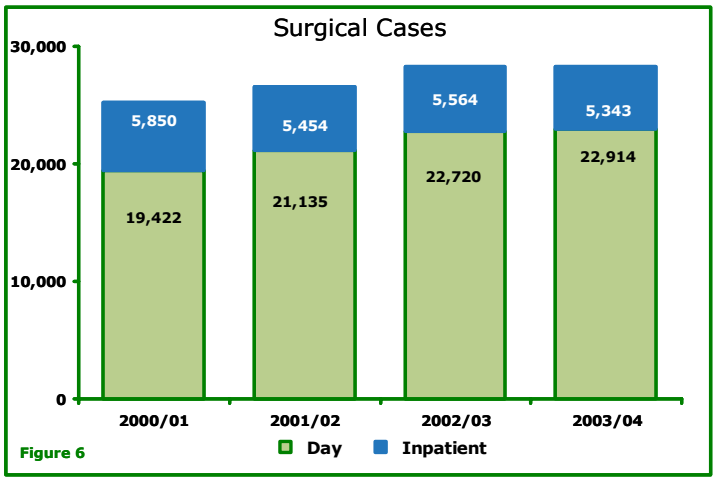


Figure 6

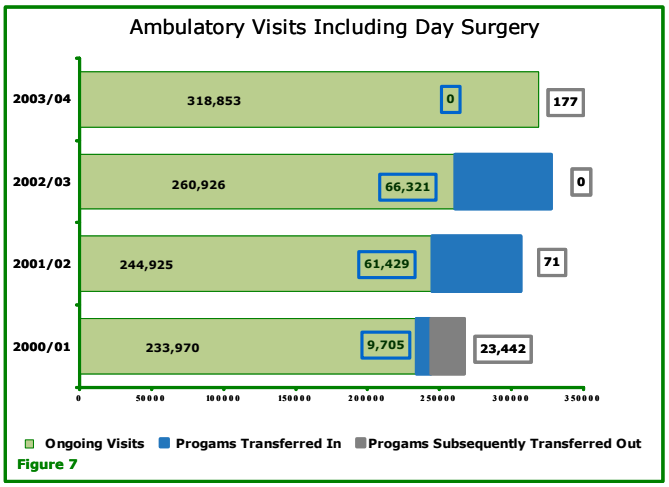


Figure 7

Rehabilitation

2001/02 saw the transfer of 21 rehabilitation beds from LHSC, and the consolidation of services to the renovated Parkwood Hospital from Mount Hope Centre for Long-Term Care. The resultant 129-bed unit is the home for stroke, amputee, spinal cord injury, musculoskeletal, geriatric, neurobehavioural and acquired brain injury patients. Year-end separations are below plan by more than 22 percent. A four-bed temporary closure on the Geriatric Rehab unit has contributed to this result. These beds were closed in the summer of 2003, but are scheduled to re-open June 2004.

Complex Care

Patient days in total were significantly lower than previous years mainly due to the closure of 40 beds and subsequent transfer of patients from the chronic to long-term care setting in October 2003. These beds aside, volumes are on track with previous years.

Mount Hope Centre for Long-Term Care

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 rehabilitation unit in 2002, opened an additional 30 long-term care beds in August 2002. Resident days continue to rise year after year and beds are currently running at 99 percent occupancy.

Veterans Care

As the population of war veterans declines, we are seeing a decrease in the demand for care; however, a transfer of patients from the Veterans Care beds within the chronic setting has resulted in a 14 percent increase in resident days for this year compared to last.

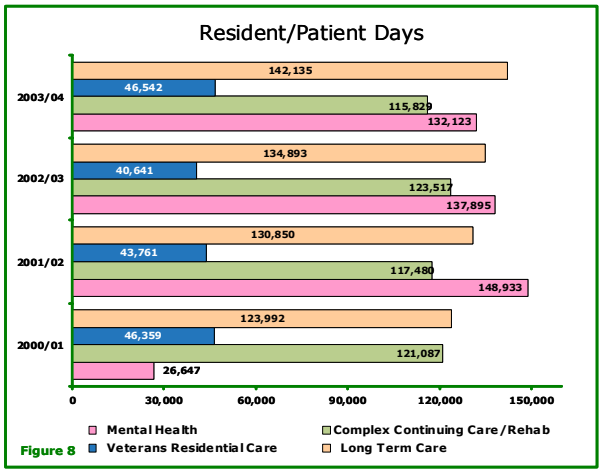


Figure 8

Mental Health Care

In total, 577 beds are designated for long-term mental health care. Total in-patient days were less than 2002/03 by 4.2 percent, due to a shortage of nursing staff and psychiatrists. Also, as the community outreach programs became fully operational, fewer admissions were required. Beds are being reduced for the upcoming fiscal year, to a total of 469.

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. The independent review conducted by The Monitor Group determined that the level of funding for SJHC was not adequate to cover the costs of services provided and recommended the government provide additional funding for 2003/04. We received $8.4 million in new funding in March 2004, of which $4.5 million was added to our base funding, and $3.9 million was received on a one-time basis.

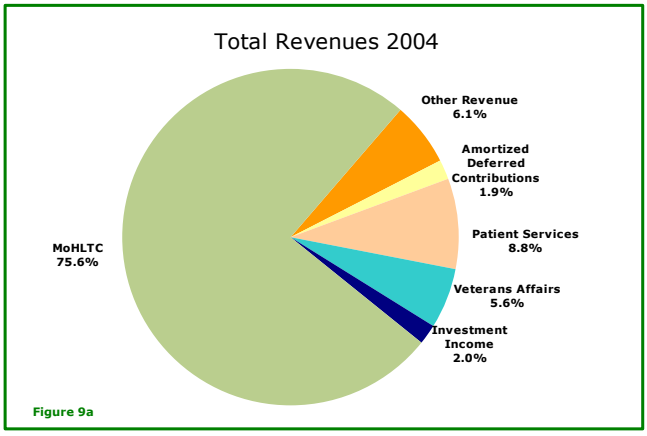


Figure 9a

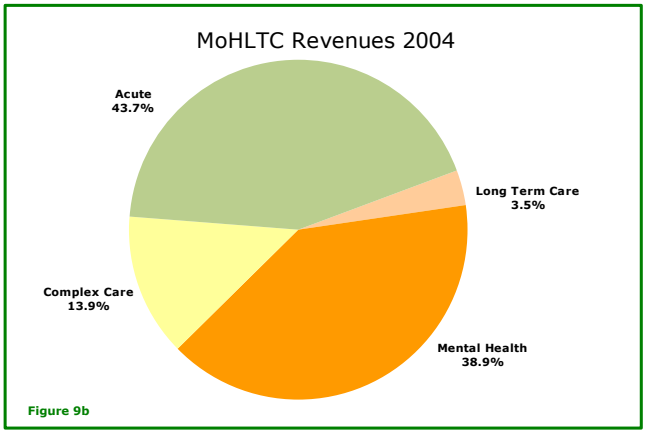


Figure 9b

At SJHC, the MoHLTC provided $318.8 million or 75.6 percent of the total revenue, including restructuring income, in 2003/04. This represents an increase of $20 million over 2002/03 and primarily reflects an increase in base funding for inflationary costs. Also included in the increase was a $1.5 million reimbursement for incremental costs associated with the SARS emergency, funding increases for other programs of $2.6 million, and a special allocation of $1.0 million directed towards the enhancement of nursing care. SJHC also receives funding from Veterans Affairs Canada to support the Western Counties Wing, and veterans requiring complex care at Parkwood Hospital. In 2003/04, Veterans Affairs Canada revenue was $23.7 million or 5.6 percent of total revenue.

Long-Term Care at SJHC, 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. 2003/04 was the final year of a 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. Our situation is not unique in the Province as there are two other organizations with similar connections to larger teaching

hospitals. We are currently in discussion with MoHLTC to establish a new funding base for Long-Term Care.

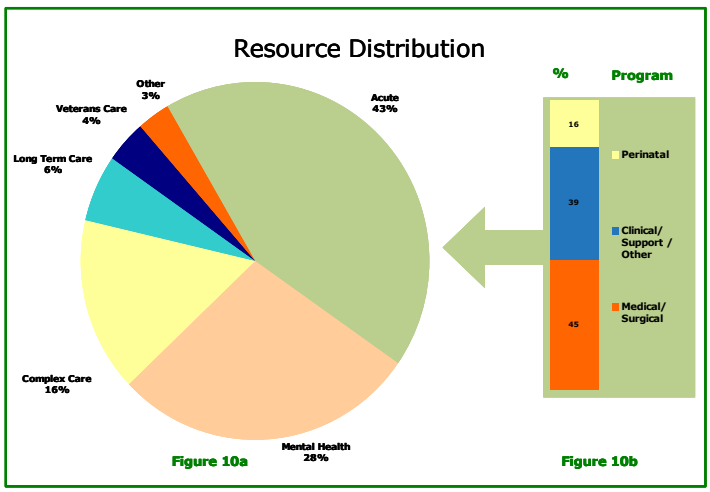
The MoHLTC funded costs incurred on a one-time basis to support restructuring activity up to March 31, 2003. Both funding and expenses are separately reported in the Statement of Operations. Costs not funded by the MoHLTC are paid 100 percent by the hospital. Total restructuring costs in 2003/04 were $3.8 million. Further funding is uncertain at this time, but is incorporated in the Monitor recommendations.

Patient services and other revenue increased a total of $1.9 million. SARS had a negative impact on fees billed to OHIP and preferred accommodation revenue declined with patient days, with a positive offset provided from increases in marketed services (i.e. retail pharmacy, community physiotherapy assessment services, food sales, etc).

Costs

In 2003/04, 73.1 percent of our operating costs were people related, as is typical of the hospital sector. The balance of our expenses was spent on operating supplies and drugs (21.7 percent), amortization of capital costs, and restructuring (5.2 percent). Figure 10a shows the distribution of resources among programs and highlights the Acute Care services provided at the St. Joseph's Hospital site. resources are Figure 10b shows the allocation of resources by program, with 43 percent dedicated to acute/ambulatory care.

Salary and benefit costs increased by $23.8 million or 8.8 percent, due in part to inflation. Benefit costs continue to rise with increased funding for the Hospitals of Ontario Pension Plan, adding considerable expense. General inflation on salaries was 4.2 percent. Benefits account for 18.3 percent of compensation (2003, 16.8 percent).



General inflation on supplies of $4.4 million, along with an increase in Ministry funded drugs for ophthalmology of $1.2 million are the most significant reasons for the supply cost increase of 5.6 percent over 2002/03. Other cost increases are associated with increase in supply costs with growing

marketed services. Not all costs went up, however, as we saw a $0.5 million reduction in utility costs over 2002/03, at least partially due to our energy conservation measures.

Amortization costs are $0.4 million less than last year. While SJHC 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, 2004

Our balance sheet remains solid with a working capital ratio of 1.09:1 and a long-term debt to net assets ratio of .029. The organization entered into a sales-leaseback arrangement with a computer equipment supplier, generating funds with a finance rate of 3.7 percent. No other new debt was incurred in 2003/04 and payments on existing debt have continued on schedule. In 2003 we 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 amount reclassified in 2004 is $3.1 million (2003, $3.4 million).

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. SJHC's financial health and performance was recognized as positive compared to its peers in the 2003 Hospital Report Card, with a current ratio of 1.1:1 compared to the peer group average of 0.7:1. (This report can be found on the Ontario Hospital Association Web site – www.oha.com)

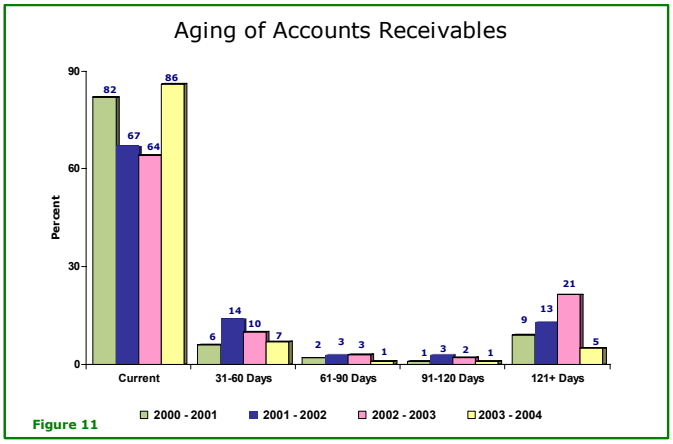


Figure 11

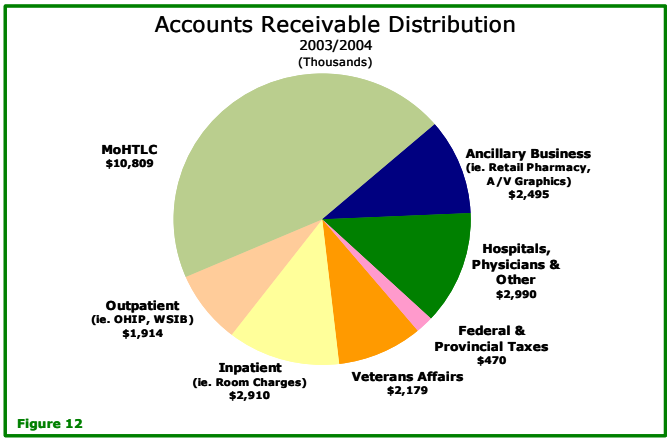


Figure 12

Accounts receivable at SJHC (Figure 11) are primarily due from the MoHLTC. As highlighted in Figure 12, the aging highlights an improvement in the timing of our collections. This is in spite of 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 ($8.0 million), for unspent contributions related to capital assets ($54.9 million), and amounts internally restricted by the Board ($93.3 million) to meet future obligations for employee sick benefits and post-employment benefits, equipment replacement, and planned capital redevelopment.

In accordance with our investment policy, external investment professionals manage our investments. Management and the Board of Directors annually review our investment policy and guidelines, as well as the performance of the investment manager.

Figure 13 shows our restricted investments by type. Investments at March 31, 2004 yielded a return as follows:

Government bonds	3.0 to 9.13 percent
Other fixed income	3.3 to 11.4 percent
GIC	3.05 to 4.05 percent

Income earned on long-term investments in 2003/04 was 5.5 percent, compared to 4.6 percent in 2002/03.

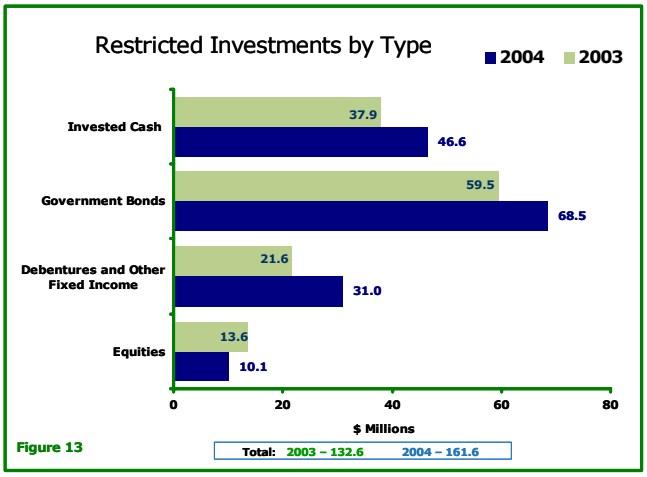


Figure 13

Total restricted investments at March 31, 2004 are $156.2 million, compared to $132.6 million in March 2003. 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 will be drawn down as spending is incurred on the next phase of our redevelopment spending. At March 31, 2004, the balance of the Unconditional Grant is $39.7 million, with income earned to-date of $6.1 million.

During the year the organization spent $18.4 million on capital assets (Figure 14), including $10.1 million on buildings and $8.3 million on equipment. More than $5.3 million has been spent on the new St. Joseph's Hospital surgical building, $0.4 million on isolation facilities in the event of suspected SARS cases, and $1.1 million on our mental health facilities to accommodate program consolidation and upgrade of facilities. Further, $1.0 million was invested in imaging equipment, $0.6 million in medication distribution systems, and $0.4 million in-patient monitoring equipment.

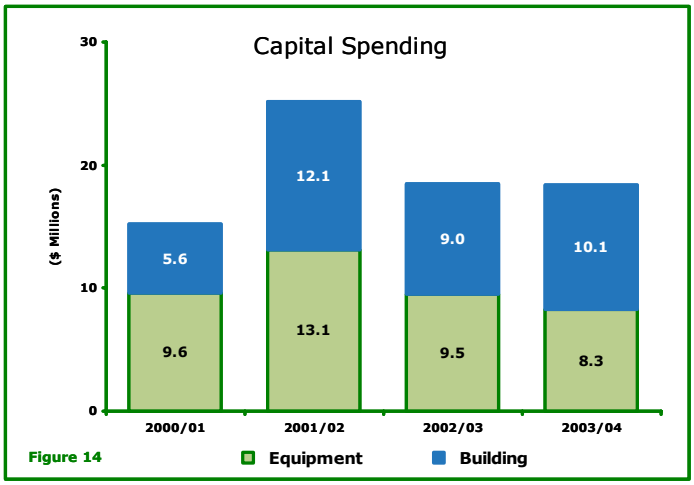


Figure 14

Spending on equipment for SJHC for the past year was only 2.0 percent of total revenue, versus 2.4 percent in 2002/03. 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. We are grateful for the receipt of federal government grants of $3.1 million for diagnostic and medical equipment. Included in this funding was $0.6 million earmarked specifically for equipment aimed at enhancing direct nursing care, for example, patient lifts, electric beds, and stretchers, along with other devices designed to enhance patient safety.

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 October 2003, the government approved the tender for the redevelopment of the property adjacent to the Monsignor Roney facility for the G.A. Huot Surgical Centre and the Diagnostic Imaging Centre, and hence reaffirmed its commitment to the total HSRC redevelopment in the city. The funding allocation to SJHC of $64.2 million, along with hospital and community support of $74.5 million, completes the $138.7 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.

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. The Continuum of Care Project (CCC)

defining one medical record for the patients in the region, and the partnership with our fellow caregivers in the Thames Valley Hospital Planning Partnership (TVHPP), to allow for electronic sharing of digital diagnostic imaging results, demonstrates our recognition of the opportunities and strength of a sound information technology infrastructure, which is essential to our future success.

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 fall 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. Senior Leaders are 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.

St. Joseph's Site Redevelopment

($ Millions)

	ACTIVITY Bldg. & Equip.	March 31 2004	ACTIVITY Building	Equipment	Total	TOTAL
Project Cost	21.2		100.8	16.7	**117.5**	**138.7**
MoH Funding	8.2		45.5	10.5	**56.0**	**64.2**
SJH Funding	11.2		30.3	0	**30.3**	**41.5**
Foundation Funding	1.8		25.0	6.2	**31.2**	**33.0**

Figure 15

Financial Statements of

ST. JOSEPH'S HEALTH CARE, LONDON

Year ended March 31, 2004

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 31, 2004.

Management works with the Board of Directors to carry out its responsibility for the financial statements principally through its Audit Committee. Voting membership of this Committee is comprised solely of independent volunteers possessing a high degree of financial literacy. The Audit Committee meets with management and the internal and external auditors to review audit plans, and any significant accounting and auditing matters and discuss the results of audit examinations. The Audit Committee also reviews the financial statements and the external auditors' report and submits its findings 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, Chief Financial Officer

Mr. John Mockler, CMA
Director Finance

May 7, 2004

AUDITORS' REPORT

To the Board of Directors

We have audited the statement of financial position of St. Joseph's Health Care, London as at March 31, 2004 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, 2004 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 7, 2004

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Financial Position

March 31, 2004, with comparative figures for March 31, 2003
(In thousands of dollars)

		2004	2003
Assets			
Current assets:			
Cash and short term investments	$	42,459	34,823
Accounts receivable (note 2)		23,767	21,352
Inventories and prepaid expenses		3,677	3,364
		69,903	59,539
Restricted investments (note 3)		156,195	132,550
Investment in joint ventures (note 15 (c)(d))		602	677
Capital assets (note 4)		185,732	184,269
		412,432	377,035
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities		60,502	49,488
Current portion of loans and mortgages payable (note 6)		3,358	3,705
		63,860	53,193
Long-term liabilities:			
Long-term liabilities (note 6)		912	1,044
Provision for demolition (note 11)		1,600	1,600
Obligation under capital lease (note 12)		1,206	-
		3,718	2,644
Deferred contributions (note 7):			
Unamortized capital contributions used to purchase assets		90,328	96,729
Unspent capital contributions		54,883	42,475
Expenses of future periods		7,967	7,920
		153,178	147,124
Net assets:			
Invested in capital assets (note 8)		92,426	85,670
Restricted (note 9)		93,345	82,155
Unrestricted		5,905	6,249
		191,676	174,074
Commitments and contingencies (note 10)			
	$	412,432	377,035

See accompanying notes to financial statements.

Ruthe-Anne Conyngham, Chair Board of Directors

Dawn Butler, Treasurer of the Board

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Changes in Net Assets

Year ended March 31, 2004, with comparative figures for March 31, 2003
(In thousands of dollars)

	Invested in capital assets	Restricted	Unrestricted	2004 total	2003 total
	(note 8)	(note 9)			
Balance, beginning of year	$ 85,670	82,155	6,249	174,074	153,511
Excess (shortfall) of revenues over expenses	(8,707)	8,244	18,065	17,602	20,563
Net change in investment in capital assets	15,463	(15,176)	(287)	-	-
Transfers to restricted	-	18,122	(18,122)	-	-
Balance, end of year	$ 92,426	93,345	5,905	191,676	174,074

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Operations

Year ended March 31 2004, with comparative figures for March 31, 2003
(In thousands of dollars)

		2004	2003
Revenues:			
Ministry of Health and Long-Term Care	$	318,675	296,146
Veterans Affairs Canada		23,722	21,866
Patient services		36,735	36,253
Other revenue		25,632	24,202
Amortization of deferred contributions		8,162	8,208
		412,926	386,675
Expenses:			
Salaries and benefits		295,595	271,797
Supplies		87,854	83,154
Amortization of capital assets		16,869	17,227
		400,318	372,178
Excess of revenues over expenses from operations		12,608	14,497
Health Services Restructuring:			
Current expenditures		(3,809)	(2,509)
Ministry of Health and Long-Term Care funding		167	2,675
Investment income		8,636	5,900
Excess of revenues over expenses	$	17,602	20,563

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Cash Flows

Year ended March 31, 2004, with comparative figures for March 31, 2003
(In thousands of dollars)

		2004	2003
Cash provided by (used for):			
Operating activities:			
Excess of revenues over expenses	$	17,602	20,563
Items not involving cash:			
Amortization of capital assets		16,869	17,227
Amortization of deferred contributions related to capital assets		(8,162)	(8,208)
Change in non-cash operating working capital		7,939	(19,081)
Net increase (decrease) in deferred contributions related to expenses of future periods		47	(587)
		34,295	9,914
Financing activities:			
Long-term liabilities		(132)	(865)
Obligation under capital lease		1,206	-
Deferred contributions related to capital assets		14,169	7,148
		15,243	6,283
Investing activities:			
Purchase of capital assets		(18,392)	(18,468)
Disposal of capital assets		60	724
Net change in restricted investments		(23,645)	(15,064)
Net change in investment in joint ventures		75	(506)
		(41,902)	(33,314)
Net increase (decrease) in cash		7,636	(17,117)
Cash and short term investments, beginning of year		34,823	51,940
Cash and short term investments, end of year	$	42,459	34,823

See accompanying notes to financial statements.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2004
(In thousands of dollars)

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.

St. Joseph's Health Care, London is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care ("MoHLTC"). Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital. The MoHLTC's stated policy is that deficits incurred by the Hospital will not be funded, and this policy has been consistently followed. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected.

1. Accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Significant accounting policies adopted by St. Joseph's Health Care, London are summarized as follows:

(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.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements - continued

Year ended March 31, 2004
(In thousands of dollars)

(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) Use of estimates:

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:

		2004	2003
Ministry of Health and Long-Term Care	$	10,809	6,131
Veterans Affairs Canada		2,179	1,627
Patients and other		10,779	13,594
	$	23,767	21,352

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements - continued

Year ended March 31, 2004
(In thousands of dollars)

3. Restricted investments:

	2004		2003	
	Cost	Market Value	Cost	Market value
Cash and cash equivalents	$ 46,526	46,526	37,850	37,850
Government bonds	68,512	69,594	59,436	60,159
Debentures and other fixed income securities	31,039	31,064	21,635	21,682
Equities	10,118	10,661	13,629	9,065
	$ 156,195	157,845	132,550	128,756

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	2004 Net book value	2003 Net book value
Land	$ 8,028	-	8,028	8,028
Land improvements	2,467	1,795	672	670
Buildings	229,342	96,175	133,167	144,226
Equipment	153,933	110,068	43,865	31,345
	$ 393,770	208,038	185,732	184,269

5. Credit facilities:

The credit facilities established for St. Joseph's Health Care, London consist of an operating line of $20,000, non-revolving demand installment loans of $3,158 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

Notes to Financial Statements – continued

Year ended March 31, 2004
(In thousands of dollars)

6. Long-term liabilities:

(a)

	2004	2003
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	$ 84	112
Unsecured banker's acceptances payable on demand, and subject to an interest rate swap agreement (d); the principal outstanding is renewable monthly and is to be reduced by $24 per month due May 21, 2004 through December 15, 2011	3,074	3,393
	3,158	3,505
Employee future benefits	8	114
Accumulated sick leave entitlement (c)	1,104	1,130
	4,270	4,749
Less current portion	3,358	3,705
	$ 912	1,044

Interest on long-term liabilities was $177 (2003, $308).

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

2005	$ 318
2006	318
2007	318
2008	290
2009	290
Thereafter	1,624
	$ 3,158

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2004
(In thousands of dollars)

6. Long-term liabilities continued:

(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 $3,074 as at March 31, 2004 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 122 "Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced" have resulted in the classification of demand installment loans where the creditor has the unilateral right to demand immediate repayment of any portion of the debt under any provision of the agreement as current liabilities.

7. Deferred contributions:

(a) Capital assets:

Deferred capital contributions related to capital assets represent both the unamortized amount of grants already spent, and the unspent amount of donations and grants received for the future purchase of capital assets.

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 interest earned of $6,117 has been credited to unspent contributions.

(b) Expenses of future periods:

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

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements - continued

Year ended March 31, 2004
(In thousands of dollars)

8. Invested in capital assets:

Invested in capital assets is calculated as follows:

		2004	2003
Capital assets	$	185,732	184,269
Amounts financed by:			
Deferred contributions		(90,328)	(96,729)
Deferred Contributions receivable		180	1,635
Loans, mortgages and accounts payable		(3,158)	(3,505)
	$	92,426	85,670

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.

		2004	2003
Restricted net assets:			
Research	$	1,000	1,000
Accumulated sick leave entitlement		1,104	1,130
Employee future benefits		2,008	1,682
Provision for demolition		1,600	1,600
Mental Health		26,026	14,652
Provision for future equipment and capital redevelopment		61,607	62,091
		93,345	82,155
Deferred contributions:			
Expenses of future periods		7,967	7,920
Unspent contributions		54,883	42,475
	$	156,195	132,550

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2004
(In thousands of dollars)

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 Hospital 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 St. Joseph's Hospital site is estimated to be $117,487. The Ministry has committed to provide related future capital funding of $55,984, St. Joseph's Health Care, London has committed to provide funding of $30,343, 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 St. Joseph's Hospital site and Mental Health Services. The Ministry advanced a portion of the committed funds in fiscal 2001 for the St. Joseph's Hospital site and Mental Health Care 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, 2004, the remaining funds, including accumulated interest are $13,948 and $25,769 for the St. Joseph's Hospital site and Mental Health Care, respectively.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2004
(In thousands of dollars)

10. Commitments and contingencies continued:

(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 was determined by the Board of Directors, that this building will no longer be used and will be torn down.

12. Obligation under capital lease:

St. Joseph's Health Care, London has entered into the following capital lease obligation for equipment, resulting from the sale/leaseback transaction with Hewlett Packard involving computer hardware:

		2004
Year ended March 31:		
2005	$	876
2006		657
2007		438
Total minimum lease payments		1,971
Less amounts representing interest at 3.7%		109
Present value of net minimum capital lease payments		1,862
Current portion of obligation under capital lease		656
	$	1,206

13. 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 $15,876 (2003, $10,486).

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2004
(In thousands of dollars)

13. Employee future benefits continued:

The most recent actuarial valuation of the Plan at December 31, 2002 indicates the Plan was fully funded.

(b) Other employee future benefits:

Other post employment benefits other than pensions, expensed during the year were $485 2003, $431). Benefits paid during the year were $159 (2003, $31). As at March 31, 2004 the recorded liability related to these costs is $2,008 (2003, $1,682). 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, 2004.

14. 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, 2004. 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, 2004, is $434 (2003, $242).

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

15. Related entities:

(a) Foundations:

St. Joseph's Health Care Foundation of London 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, 2004, the Foundation provided donations totaling $1,589 (2003, $2,973).

Parkwood Hospital Foundation of London, Ontario is 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, 2004, the Foundation provided donations totaling $722 (2003, $504).

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2004
(In thousands of dollars)

15. Related entities continued:

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 an alliance to conduct all research activities as the Lawson Health Research Institute. Each venture continues to account for its costs independently and as such, the LRI is consolidated in these 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, 2004 was as follows:

		2004	2003
St. Joseph's Health Care, London	$	1,037	963
London Health Sciences Centre		2,586	2,470
	$	3,623	3,433

HMMS incurred a loss of $83 (2003, $189) 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 $737 term loan. As at March 31, 2004, HMMS had not drawn on its operating facility. St. Joseph's Health Care, London has provided a guarantee for up to $2,862 in support of these credit facilities.

The net investment in HMMS at March 31, 2004 is $78 (2003 $43).

(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

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements - continued

Year ended March 31, 2004
(In thousands of dollars)

15. Related entities continued:

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, 2004 was as follows:

	2004	2003
St. Joseph's Health Care, London	$ 9,430	8,496
London Health Sciences Centre	30,971	28,603
	$ 40,401	37,099

The LLSG incurred a loss of $976 (2003, $976) 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 $196 towards a capital equipment investment of $755.

The net investment in LLSG at March 31, 2004 is $524 (2003 $634).

16. Comparative amounts:

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